Austria Sch22	Indonesia Rp3100	Portugal Esc120
Bahrain Din0.650	Israel NS3.50	S.Arabia Rls7.00
Belgium BFr48	Italy L1700	Singapore ... S$4.10
Canada ...... C$1.00	Japan Y600	Spain Pta145
Cyprus ...... C£0.90	Jordan ..... Fils 500	Sri Lanka Rup30
Denmark . DKr10.00	Kuwait ..... Fils 500	Sweden SKr9.00
Egypt .... E£2.25	Lebanon ... $L125.00	Switz SFr2.30
Finland Fmk7.00	Lux LFr48	Taiwan ...... NT$85
France FFr6.50	Malaysia ... Rlx4.25	Thailand Bht50
Germany DM2.30	Mexico Pes300	Tunisia Din0.800
Greece Dr120	Morocco Dh6.00	Turkey L600
Hong Kong .... HK$12	Neth Fl3.00	UAE Dh6.50
Iceland Ikr125	Norway Nkr10.00	USA $1.80
India Rup15	Philippine ... Pesos40	

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,653 Wednesday September 28 1988

COMECON CRISIS
Easterners look to the West for trade
Page 24

World News

Foreign ministers to resume Gulf peace talks

Foreign ministers of Iran and Iraq will meet in New York for talks on Saturday to try to restart the UN-mediated Gulf peace process. The discussions will be based on Security Council Resolution 598, calling for withdrawal of troops to internationally recognised boundaries, and an exchange of prisoners. *UK-Iran thaw*, **Page 4**

Rabin warning

Israeli Defence Minister Yitzhak Rabin said the Israeli army was deliberately shooting and wounding more Palestinian demonstrators to deter the uprising in the occupied territories.

British AIDS hope

British scientists plan to conduct tests late next year that they hope will pave the way for a vaccine against AIDS.

Polish PM confirmed

The Polish Parliament endorsed Mieczyslaw Rakowski, the Communist Party Central Committee's nominee, as Prime Minister. **Page 3**

Gorbachev arms call

Soviet leader Mikhail Gorbachev called on the US and Pakistan to "come to their senses" and stop arming rebels fighting the government of Afghanistan.

Hirohito 'stable'

Japan's Emperor Hirohito, critically ill since September 19, received another blood transfusion. His condition is described as stable but critical. **Japanese pray, Page 4**

Militia on defensive

The head of Hungary's Workers' Militia – set up to defend the Communist Party after the 1956 uprising – described himself as "infuriated" by a trade union proposal that it be dissolved. **Conflict with Romania, Page 3**

US envoy in Beirut

US Ambassador-designate to Lebanon, John McCarthy, unable to present his credentials in the absence of a head of state, held talks with rival Christian and Moslem administrations in Beirut.

Yugoslav tensions

The official Croatian press in Yugoslavia called Serbian agitation over Kosovo province a "torrent of nationalism and anarchy passing itself off as . . . democracy."

Burma alliance head

Retired army officer Aung Gyi was named chairman of the Burmese opposition League for Democracy. The official death toll since the September 18 coup rose to 348. **Page 4**

Crash pilot blamed

Pilot error was blamed for an air crash which killed 29 people at Sofia airport on August 2.

Iceland coalition

Two of Iceland's centrist parties and one from the left agreed to form a government, ending a crisis caused by the collapse of the previous coalition 10 days ago.

Soviet east opens up

The Soviet Union has ended the "closed border" status of the area around Vladivostok, potentially opening it up to foreign visitors and investment. **Page 2**

Business Summary

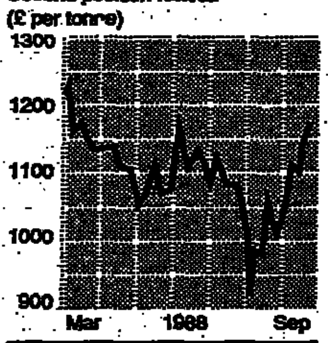
Kohlberg tops Maxwell bid for Macmillan publishers

MACMILLAN said it had agreed to an amended merger proposal from leveraged buy-out group Kohlberg Kravis Roberts. Agreement provides for purchase of up to 91 per cent of outstanding shares of Macmillan at $90.05 per share. Following completion of tender offer, the Kohlberg unit, MI Holdings, will be merged with Macmillan.

Maxwell Publishing, Robert Maxwell's UK-based publishing group, had earlier increased its offer to $89 per share, topping Kohlberg's previous bid of $85 per share. **Page 25**

COFFEE: Brazil and Colombia, the two biggest producers, put joint proposals to International Coffee Organisation talks in London, now in their second week, on the coming year's total export quota. This includes provisions to stimulate production of arabicas, should the differential between the ICO indicator prices for robustas and "other milds" pass a given threshold. **Page 44**

Coffee
Second position futures
(£ per tonne)



BRITAIN'S current account deficit was £1.3bn ($2.2bn) in August, down from a record £2.15bn in July, easing pressure on Government to raise interest rates again. **Page 10**

DAILY Mail and General Trust, publisher of the UK's Daily Mail and Sunday Mail newspapers, lost its legal bid to transfer its headquarters to the Netherlands to cut its tax bill.

MALAYSIA is to acquire British military equipment worth about £1bn over the next five years, with the possibility of further purchases under an agreement which includes an important technology transfer element. **Page 8**

ITALIMPIANTI, Italy's state-owned industrial plant builder, will play a key role as both investor and lead constructor in an $870m project to create a primary aluminium plant in Venezuela. **Page 8**

OLIVETTI, Italian business electronics group, reported a 24 per cent drop in first half pre-tax profits despite a 16 per cent sales increase. **Page 25**

ELDERS IXL, Melbourne-based brewing, agribusiness, resources and finance multinational, laid claim to being Australia's largest company by sales volume when it reported record results. **Page 25**

SUN Microsystems, leading computer workstation manufacturer, is planning a major assault on the personal computer market. **Page 26**

ALBERTA has won a Canadian federal commitment worth nearly C$500m (US$410m) to subsidise the C$4.1bn OSLO Tar Sands project near Fort McMurray. **Page 26**

MALAYSIA Mining Corporation, world's biggest tin mining company, reported 25 per cent increase in pre-tax profit to 25.2m ringgit ($9.47m) for its first half ended July on turnover up 29 per cent to 330m ringgit. **Page 27**

BECAUSE of transmission problems, the Wall Street prices on pages 46 and 47 have *not been updated*.

Johnson achieves the world's fastest fall from grace

ONE MINUTE he was being lionised as the fastest man on earth. The next moment he was being branded a drugs cheat, flung out of the Seoul Olympic Games and banned for two years, his career in ruins. A superhuman one day – a drugs villain the next, writes **Michael Thompson-Noel** in Seoul.

Such was the appalling fall from grace that befell Ben Johnson yesterday when the Jamaican-born Canadian sprinter was told that he had failed a routine drugs test after what had looked like an *epoch-making victory* in the Olympic men's 100-metres final last Saturday.

In that race, Johnson, 26, won the gold medal in a world record time of 9.79 seconds – the first man ever to break through the barrier of 9.80 seconds.

Big Ben was flying home last night to a Canada stunned by the news. His family and his shell-shocked agent, Mr Larry Heidebrecht, continued to protest the sprinter's innocence maintaining that his fluid intake must have been doctored.

In Seoul shocked competitors in 20 Olympic sports carried on with the Games as action entered its eleventh day. But they knew that the Olympics had been engulfed by the biggest sports drugs scandal ever; that virtually no prominent sportsman or woman could now remain indisputably above suspicion; that the Johnson case made a mockery of modern athletics, and that once again the Olympic Games and their lofty ideals had been blackened, just as they were by the deaths, terrorism and political boycotts of the past 20 years.

The net set to catch cheats is expensive and sophisticated. At the Olympic doping control laboratory in Seoul, Dr Park Jong-sei a professor of toxicology heads a team using $3m worth of US-supplied equipment capable of detecting more than 3,700 substances in five main groups, at levels of one part in a billion – a feat comparable to locating a sugar crystal in a bucket of sand.

The laboratory is one of 21 accredited by the International Olympic Committee (IOC)in different parts of the world.

During the two-week Seoul Olympics it is operating 24 hours a day, and expects to carry out 6,000 analyses on 2,000 samples.

Before Johnson, 30 Olympic competitors had been disqualified for drug-taking (six of them in Seoul) since the IOC instituted full-scale drugs testing at the Munich Games in 1972.

In other words: how on earth could an athlete of Johnson's distinction have taken such a huge gamble? The answer is, apparently, an unknown combination of greed and stupidity.

Yesterday Edwin Moses, the distinguished US hurdler, said:
Continued on Page 24

THE NEWS about Johnson hit Canada like a cyclone, writes David Owen from Toronto. The athelete was the type of hero Canadians love: a man who had overcome a deprived childhood and a speech impediment as well. After initial disbelief, the mood was profound disappointment. Advertisements featuring Johnson's powerful image disappeared from newspapers and television. "Today, you stand alone," proclaimed one all too prophetically. Prime Minister Brian Mulroney, who had telephoned to congratulate Johnson after his victory, said the disqualification was "a moment of great sorrow for all." **Page 4**

Ben Johnson and his sister Jean at Seoul's Kimpo airport yesterday, bound for New York.

IMF and World Bank urge resources shift to developing nations

By David Marsh in Berlin

THE International Monetary Fund and the World Bank yesterday spoke out forcefully for a fresh transfer of international resources to developing countries as a means of creating more balanced world growth and prosperity.

In keynote speeches at the two institutions' annual meetings here, Mr Michel Camdessus, the IMF managing director, and Mr Barber Conable, president of the World Bank, urged a new economic partnership between industrialised and developing nations to allow the Third World to escape its twin crises of debt and poverty.

Mr Camdessus called for urgent steps to be taken by the world financial community to reverse the current flow of resources from the developing to the developed world.

This abnormality, which has come about partly as a result of capital flows financing the US current account deficit, was "understandable, but not acceptable," he said.

In a move also being backed by the French Government, Mr Camdessus, a former governor of the Banque de France, stressed the need to see a stronger role in the world monetary system for the IMF's composite currency unit, the Special Drawing Right.

Conable: "moral outrage" of poverty

Mr Conable punctured a general mood of complacency here about the international economy by describing as "a moral outrage" extreme poverty among 1bn people in the Third World.

"The stubborn fact of the 1980s is that growth has been inadequate," he said.

Recalling that the World Bank group's commitments to borrowers over the past 12 months rose to a record of more than $20bn, Mr Conable pledged "fresh effort in the fields of hunger, population, education and environmental protection."

Underlining the fresh concern about the link between *economic deprivation and* ecological damage in the Third World, West Germany and Canada yesterday both urged joint efforts to combat global environmental strains.

Mr Helmut Kohl, the West German Chancellor, told the meeting Bonn would spend an extra DM150m ($80m) this year in development aid to curb the felling of tropical forests – blamed for adding to world climatic problems – in areas such as Brazil.

Japan, meanwhile, unveiled its developing country debt relief plan, building on proposals made at the June economic *summit in Toronto, although* final details of the long-anticipated initiative have not been finalised.

By asserting yesterday the need to spread to poorer countries the higher economic growth enjoyed by the industrialised world in the past few years, the IMF and World Bank are clearly moving to the forefront of discussions on international economic management
Continued on Page 24
Details of IMF and World Bank meetings, Page 5

Paris leads push for monetary stability

By Philip Stephens in Berlin

FRANCE is pressing its partners in the Group of Seven nations to agree firm plans to strengthen the international monetary system by the time of the World Economic Summit in Paris next July.

The French push at this week's meeting of the International Monetary Fund came amid a flurry of new proposals from several countries to improve the existing floating rate system.

Senior monetary officials also confirmed that several of the Group of Seven nations had prepared confidential papers outlining their ideas for more structured management of exchange rates.

The ideas, which include the suggestion of Mr Nigel Lawson, *Britain's Chancellor* of the Exchequer, that governments should move to a system of managed floating of exchange rates and US plans to further develop the use of economic performance indicators, are likely to be reviewed in detail at a meeting of officials in Paris later this year.

In parallel, Mr Michel Camdessus, the IMF's managing director, won a mandate from the IMF's policy-making Interim Committee to intensify studies on the same subject in the Fund. In an upbeat speech to the annual meeting yesterday Mr Camdessus said
Continued on Page 24

Chirac adviser replaced as Air France chief

By Paul Betts in Paris

MR Jacques Friedmann, chairman of Air France and a close adviser of Mr Jacques Chirac, leader of the Gaullist RPR opposition party, is to be replaced next week by Mr Bernard Attali, twin brother of one of the top aides to President François Mitterrand.

The decision was announced last night by Mr Michel Delebarre, the Socialist Transport Minister. The Socialist Government of Mr Michel Rocard is due to ratify the nomination of the new chairman of Air France at a Cabinet meeting next week.

Mr Friedmann's position at *Air France had appeared* extremely precarious since the Socialist victory in the French general elections last June. Before being appointed to the Air France post by Mr Chirac last year, Mr Friedmann had been widely regarded as an "eminence grise" of the Gaullist government and a main *architect of Mr Chirac's* privatisation programme.

Although the Government pledged after the elections not to revert to an old-style political witch hunt in France's state enterprises, it has nonetheless replaced a number of Gaullists in key jobs with its own candidates.

Mr Friedmann is the fourth "victim" of the new Government. Mr Jean-Maxime Leveque was recently replaced at the head of the Credit Lyonnais nationalised bank, and earlier in the summer the Government replaced Mr Jean Dromer at the top of the UAP state insurance group. In August, the Government replaced Mr Philippe Rouvillois at the top of SNCF.

However, all those appointed are well regarded business figures and are not all unqualified supporters of the Socialist Party.

Although Mr Bernard Attali, the new Air France chairman, is closely associated with the Socialists, he enjoys widespread esteem as a former *chairman of the GAN state* insurance group.

Mr Friedmann's position may have been undermined by the repercussions of the disaster in June at the Mulhouse air show when a new Air France A320 crashed during a demonstration flight, killing three people. The Government has *put high priority on making* transport safer in France. One reason why it decided to replace the chairman of SNCF was a series of rail accidents in France.

Although the Government has indulged less in the political spoils system than its right-wing predecessor, it is *under heavy pressure from* party supporters to replace other chairmen of leading state enterprises.

EC jurisdiction over foreign companies upheld by Court

By Tim Dickson in Luxembourg

THE European Court of Justice yesterday delivered a *landmark ruling* which upheld the European Community's right to pursue foreign companies which break the EC's competition rules.

The Luxembourg Court's rejection of a plea by a group of North American and Scandinavian pulp producers that the European Commission overstepped its authority by imposing fines for alleged cartel fixing in 1984 was being widely interpreted last night as an important assertion of the Community's extra-territorial jurisdiction.

Community officials were reluctant to draw immediate conclusions from the judgment but many feel it could have important political ramifications outside the purely competition arena in the final stages *of the EC's progress towards* a unified internal market.

The immediate significance of yesterday's ruling is that it may embolden the European Commission, which has consistently argued its right to attack alleged cartels operating inside the Community regardless of where the offenders are based. Mr Peter Sutherland, the EC's Competition Commissioner, said last night that the Court had "confirmed the Commission's policy of applying the EC competition rules in a coherent and non-discriminatory manner to restrictive practices, wherever initiated, which have an impact on competitive conditions and trade within the Community."

"This is of particular significance", he added, "in the light of the completion of the internal market and the development of international trade".

According to a senior Commission official, however, the Brussels *authorities have* been proceeding against non-EC companies where appropriate and are not poised to launch a series of actions in the light of yesterday's judgment.

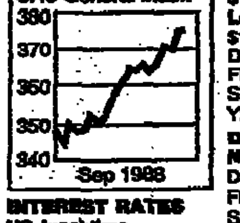
The wood pulp case dates back to the Commission's decision of December 1984 alleging that about 40 wood pulp producers were fixing prices.

In upholding the Commission's *case* against individual companies the Court said that "the decisive factor is therefore the place where it (the concerted practice) is implemented".

The court dismissed an application by Finnish companies that the EC-Finland Free Trade Agreement should have been *applied* instead of the EC's competition rules but it sided with the US Trade Association – as opposed to its member companies – on the grounds that its behaviour was indistinguishable from those *members and should not* therefore be held liable separately.
Demand for anti-dumping duties, Page 24

MARKETS

France
CAC General Index



STERLING
New York close
$1.6785 (1.67325)
London:
$1.6785 (1.667)
DM3.1550 (3.1375)
FFr10.7350 (10.6825)
SFr2.6700 (2.6575)
Y225.75 (224.5)

DOLLAR
New York close
DM1.8788 (1.8805)
FFr6.3945 (6.399)
SFr1.5900 (1.5905)
Y134.68 (134.475)
London:
DM1.8790 (1.883)
FFr6.3950 (6.4075)
SFr1.5905 (1.5935)
Y134.45 (134.65)

GOLD
New York latest
Comex Dec
$402.5 (400.3)

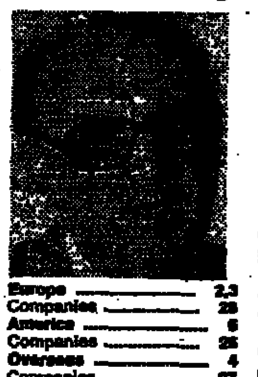
INTEREST RATES
US lunchtime
Federal Funds $8\frac{1}{4}$% (same)
3-mth Treasury Bills: yield: 7.53% (7.524)
Long Bond: $100\frac{1}{2}$ ($101\frac{12}{32}$)
yield: 9.07% (9.077)
London
3-month interbank: close $11\frac{15}{16}$% ($12\frac{1}{32}$)

STOCK INDICES
New York close
Dow Jones Ind. Av.
2,082.33 (-2.84)
S&P Comp
288.13 (-0.75)
London:
FT-SE 100
1,808.0 (+15.3)
World:
123.43 (Mon)
Tokyo
Nikkei Ave
27,499.56 (+165.81)
Frankfurt
Commerzbank
1,569.1 (-3.1)

OIL
Brent 15-day (Argus)
$12.66 (-0.605) (Oct)
West Tex Crude
$13.87 (-0.50) (Nov)

CONTENTS

Papandreou affair has won the hearts of many Greeks



"If Papandreou weathers heart surgery, he'll sweep the vote of every Greek man and every Greek woman under 50," an observer quipped recently of the Socialist leader's extra-marital liaison. He was only half-joking.
Page 2

CLOSED STATUS OF AREAS NEAREST TO JAPAN AND KOREA IS SCRAPPED

Moscow opens borders in East

By Quentin Peel in Moscow

THE Soviet Union has taken an important step to open its remote Far East region to swifter economic development, by scrapping the "closed border" status of the area closest to Japan and Korea.

The move could herald the opening of the city of Vladivostok to foreigners as promised by Mr Mikhail Gorbachev, the Soviet leader, two years ago.

It is also seen as the first step in a review of the restrictions on border regions throughout the Soviet Union which leave vast tracts of the country subject to strict rules on movement both for Soviet citizens and foreigners.

The "border zone" status of the Maritime Territory around Vladivostok has been strongly attacked by the local authorities as a stumbling block to economic development, both in discouraging foreign investment and in preventing easy mobility of labour.

The region, with a population of some 2m, is expected to host the first "special economic zone" in the Soviet Union, offering tax concessions, lower customs tariffs, and subsidised wages and raw materials for joint ventures with foreign investors.

The twin ports of Nakhodka and Vostochny, east of Vladivostok, have submitted plans for such a zone, now being considered by the Communist party central committee.

The status of Vladivostok itself is still in doubt, although it is being opened for the first time to a large group of foreign visitors at the weekend, to attend a conference on Mr Gorbachev's proposals for peace and disarmament in Asia and the Pacific.

However, the Soviet military is still understood to oppose complete opening of the city, which is the main naval base for the Soviet Pacific fleet. General Yuri Markelov, a member of the Soviet general staff, said last week that such a move still depended on "confidence in the military field."

He said that "give appropriate conditions" the city would not be "closed forever."

Without opening Vladivostok, foreign investors would be denied access to the only substantial city in the region. They would also be forced, as at present, to fly in and out through Khabarovsk, a 17-hour rail journey from the proposed economic zone.

As for other "border zones", whose security falls directly under the authority of the KGB, a spokesman for the Ministry of Internal Affairs said that the question of revising entry into such regions, or diminishing their size, was currently under review.

E Germans refuse concessions at Vienna

By Judy Dempsey in Vienna

EAST GERMANY, in one of the clearest indications to date of its reluctance to make significant concessions at the East-West security talks in Vienna, has openly rejected Nato demands that it should make things easier for Western visitors.

In a speech at the Vienna meeting of the Conference on Security and Co-operation in Europe (CSCE), a senior East German diplomat ruled out abolishing the compulsory daily currency exchange for visitors travelling to East Germany.

Under the present arrangements, only children and pensioners are exempt from this requirement. The East German delegation justified the regulations on the grounds that their abolition would have serious economic consequences for his country.

Such a view was recently defended by Mr Yuri Kashlev, head of the Soviet delegation. He asked the CSCE to drop, what he termed "unrealistic demands concerning foreign currency which are economically damaging to other countries."

For their part, Western diplomats argue that such regulations impose a brake on freer travel as well as inhibiting the development of closer human contacts.

In the view of such Western diplomats, compared to recent months, the Soviet backing indicates a more obvious and united stance among the Warsaw Pact. Hitherto, the Soviet Union appeared to distance itself from some of its allies, especially on certain human rights issues.

In addition, the Soviet delegation often argued that owing to the new climate in Moscow, it now no longer had the free rein to influence its Communist partners.

The East German position comes at a time when the CSCE shows little sign of progress, particularly in the humanitarian field. The apparent stalemate, diplomats say, is due partly to a tougher stance been adopted by some of the East European countries.

In particular, Czechoslovakia shows few signs of allowing greater religious freedom, Bulgaria continues to refuse to acknowledge, let alone agree to, wider rights for the minorities. The Soviet Union declines to lift radio-jamming and Romania remains reluctant to undertake any fresh commitments on human rights.

The present climate in Vienna means that the mandate for starting new Conventional Stability Talks (CST) involving the 23 Nato and Warsaw pact states, could be delayed. Since the CST is linked to the CSCE process, no such forum can begin without the 35 CSCE reaching consensus in other areas.

Within the CST itself, Western diplomats are more confident that the Warsaw Pact will make concessions over the areas of the Soviet Caucusus that should be included in the talks. There are also signs of agreement emerging over what areas of Turkey should be excluded from the new forum.

However, the 23 nations remain at odds over a recent and unexpected Warsaw Pact proposal which envisaged excluding completely the Soviet Union's air defence forces from the talks, an idea which Nato refuses to entertain on the grounds that its own defences will remain outnumbered in any future reductions.

These differences, coupled with the current atmosphere in the CSCE as a whole, led one senior Western diplomat to say that unless agreement in all the outstanding issues was reached before the US presidential election in November, "these talks could drag on to Easter."

Czech and Israeli ministers to hold talks

THE foreign ministers of Israel and Czechoslovakia, Mr Shimon Peres and Mr Bohuslav Chnoupek, will meet for the first time during the current United Nations session in New York prior to Middle East talks in Prague with many foreign participants, Reuter reports from Prague.

The New York talks were officially confirmed by the government spokesman, Mr Dusan Rovensky, at a news conference.

They follow an attack earlier in the week by the Communist party weekly, Tribuna, accusing Israel of "racism and terrorism." It criticised the "brutal, inhuman actions of Israeli forces against the Palestinians, who have risen to defend their just demands." This "shows Israel, led by Zionists, in its true light."

At a time when Hungary, Poland and the Soviet Union are seeking closer ties with Israel, Tribuna said Israel was "a state in which racism, terrorism, torture, the expulsion of people from homes and even the homeland, aggression and annexation of foreign territories is part of its policy."

Mr Rovensky said the meeting between Mr Peres and Mr Chnoupek was proposed by the Israeli side. He indicated restoration of normal relations between the two countries, severed in the wake of the 1967 Middle East war, was possible only "within the framework of broad normalisation in the Middle East."

Israel's Prime Minister, Mr Yitzhak Shamir, who visited Hungary earlier this month, said re-establishment of diplomatic relations was imminent.

Shipowners sail closer across the Aegean

By Andriana Ierodiaconou

GREEK AND Turkish shipowners yesterday agreed on a broad agenda of co-operation, intended to translate the recent improvement in political relations between Athens and Ankara into tangible benefits for the shipping sector of both countries.

The agenda was drafted in two days of talks between the Hellenic and Turkish Chambers of Shipping. It was the Turkish chamber's first official visit to the Greek capital.

The two delegations agreed to urge their respective governments towards the speediest possible signing of a framework shipping co-operation agreement, separate Greek and Turkish draft texts for which have already been drawn up.

The Turkish side undertook to "discourage" unofficial discrimination practised in the past for political reasons against Greek-flag vessels, an issue of importance to the Greek delegates.

The Hellenic Chamber said it would seek easier visa requirements for Turkish citizens travelling to Greece on shipping business, by proposing to the authorities the issuing of multiple entry visas for such cases. Greeks travelling to Turkey do not require visas.

The two sides agreed to urge their governments to adopt a treaty avoiding double taxation.

They also called for a "more realistic" billing policy as regards the provision of port facilities, with the aim of further developing sea-borne tourism and increasing the movement of passengers between Greece and Turkey.

Both Greek and Turkish officials acknowledged however that the implementation of the agenda will depend on the progress of the political rapprochement between Athens and Ankara.

Greece has pegged the future of the rapprochement on the progress of United Nations sponsored peace talks which began this month in Cyprus.

● Mr Turgut Ozal, the Turkish Prime Minister, will make a two-day official visit to Italy next month mainly for economic talks, Reuter reports.

Papandreou affair wins many Greek hearts

Andriana Ierodiaconou explains why the Premier's liaison is not prompting calls for his resignation

"IF PAPANDREOU weathers heart surgery, he has the next general election in the bag. He'll sweep the vote of every Greek man and every Greek woman under 50," one political observer quipped recently, speculating on the political fallout from the Socialist leader's extra-marital liaison with former air hostess Ms Dimitra Liani. He was only half-joking.

For a prime minister to sanction being photographed during a romantic walk with a woman not his wife would be unthinkable in Britain or the US, and difficult to imagine in any other Western European country.

Yet Mr Andreas Papandreou, who is in a London hospital awaiting heart surgery, apparently raised no objections to being snapped by the paparazzi as he and Ms Liani strolled side by side. All this despite the fact that he leads a country which is seemingly devoted to the values of family and home, and if anything slow to be drafted to the post-1960s sexual revolution.

Nor do the details of the Liani affair, of the stuff that even True Romances might balk at, spare any puritanical sensibilities.

The Prime Minister met Ms Liani, a former employee of the national carrier Olympic Airways, on a state flight to India three years ago.

Their liaison became public knowledge 12 months ago, when an opposition newspaper revealed that Mr Papandreou had refused an invitation to attend a ceremony commemorating a serious earthquake in the southern Greek town of Kalamata, in favour of a cruise with Ms Liani aboard a friend's yacht. Both protagonists are married. Ms Liani's divorce is reportedly imminent, while the Prime Minister has announced his intention to file for divorce from Margaret, his American wife of more than 35 years standing, after his operation.

Divorce is not banned by the Greek Orthodox church, and the divorce law was considerably liberalised when the Socialists introduced civil marriage seven years ago. But it is discouraged.

Add to all this the fact that Mr Papandreou is 69 years old to Ms Liani's 34, and one might expect a widespread reaction of shock, and calls for the Prime Minister to resign.

European Diary

Greece

For a prime minister to sanction being photographed during a romantic walk with a woman not his wife would be unthinkable in Britain or the US.

So why has there been so little criticism? The apparent riddle is easily solved if one grasps that the much-touted conservative values of Greek society weigh more heavily on women than on men.

While the killing of faithless wives or girlfriends is one of the commoner Greek crimes and viewed in mitigation as an act of honour, male extra-marital affairs – virtually an institution, particularly in the urban centres – tend to be regarded merely as an admirable confirmation of virility. "Well, if the girls won't let the man alone, what can you expect him to do?" one middle-aged Greek man said typically, referring to Mr Papandreou.

Particularly among older Greek women, the majority of whom do not work outside the home, accepting their husband's adventures in silent martyrdom while sublimating their frustrations in motherhood is held up as an ideal.

Hence the lack of surprise, and even admiration, among wide sections of society for the fact that Mrs Papandreou, the founder and leader of a militant feminist movement, has chosen to endure her situation mutely rather than take the initiative to end it.

The stylized portrayals by the national press of both Mrs Papandreou and Ms Liani are undergoing a not-so-subtle transformation.

Upon the socially acceptable image of Mrs Papandreou as the dignified and supportive wife and mother some newspapers are now superimposing a second, far less acceptable one of the politically ambitious, foreign spouse who fostered her own plans and activities when she should have been ministering to husband and hearth.

As one Athens daily put it: "Margaret's responsibility in all this is enormous. While travelling in Europe, in America, and in Asia, she neglected her wifely duties."

Ms Liani on the other hand is metamorphosing from the socially threatening bosomy girlfriend of a year ago to a selfless nurse-cum-companion at Mr Papandreou's London bedside.

Greek progressives, meanwhile, are bestowing their own brand of praise on the Prime Minister. "The courage, unconventionality and lack of hypocrisy you displayed as regards Dimitra (Liani) were revolutionary, so let the complex-ridden shout," said an open letter to Mr Papandreou in the September issue of the avant-garde magazine *Klik*.

FINANCIAL TIMES

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EUROPEAN NEWS

Moscow deploys more troops in troubled south

By Quentin Peel in Moscow

SOME 15,000 extra Soviet troops and police have been deployed in the republics of Armenia and Azerbaijan to keep the peace, and enforce a curfew in the strike-ridden enclave of Nagorno-Karabakh, a senior police chief said yesterday.

He insisted that the "timely" action to prevent racial violence between Armenians and Azeris, after clashes last week left 49 people injured, and one dead, was bringing the situation under control.

About 600 curfew breakers have so far been arrested in Nagorno-Karabakh, whose predominantly Armenian population is campaigning to be transferred from the authority of Azerbaijan to Armenia.

All hunting guns have been confiscated, and special permission has to be granted for the use of private cars, according to Maj-Gen Vassily Ignatov, head of the organisational and inspection directorate of the Soviet Interior Ministry.

He said that in spite of "provocative" calls by nationalist leaders, none had so far been detained, either in Yerevan, the capital of Armenia, or in Nagorny Karabakh, "in accordance with out democratic line."

Confused reports still continue to emerge from both Yerevan and Stepanakert, the capital of Nagorny Karabakh.

In the former, most strikers appear to have gone back to work, partly in response to the threat of tough sanctions from the authorities, including loss of housing rights, bonuses, and holiday rights. However, even the official news agency, Tass, admitted that "the situation in the Armenian capital is not calm" – an extraordinary admission for such a highly controlled organisation.

Armenian informants in Moscow say that an increasing number of demonstrators have started hunger strikes in the city's central Opera Square, demanding a new meeting of the republic's Supreme Soviet to back the Nagorny Karabakh case.

Reporting on the situation remains very sparse in the Soviet press – a subject of criticism in the newspapers themselves, although they still do little about it.

Sozialisticheskaya Industria reported from Yerevan yesterday that the lack of information from Nagorny Karabakh only fed "disorder and confusion," because people gathered in the city centre simply to be informed.

French authorities award car telecoms contract

By Paul Betts in Paris

THE French state telecommunications authority, France-Telecom, selected last night two consortia led by the French Matra and Alcatel groups to build and develop France's future digital car telephone system – the French component of a common European network – between now and 1991.

The decision is expected to give a boost to Matra and Alcatel and their respective European partners in their efforts to secure a large slice of the emerging market for car telephones in Europe.

French telecommunications officials expect the European digital car radio market to involve between FFr40bn ($6.24bn) and FFr50bn in new telecommunications equipment investment. Of this total, France and Britain are expected to account for as much as 40 per cent of the market.

Five international telecommunications consortia had battled for the contract.

The Matra consortium brings in the Swedish Ericsson group and the British Orbitel company associating Racal and Plessey. Partners in the other consortium lead by Alcatel, the telecommunications subsidiary of France's CGE group, are AEG of West Germany and the Finnish Nokia group.

Hungarian wins nothing from Ceausescu talks

By Leslie Colitt in Berlin

A SENIOR Hungarian party official has returned from a visit to Romania with little hope that President Nicolae Ceausescu is prepared to meet Budapest's demands for better treatment of the 1.7m ethnic Hungarians there.

Mr Matyas Szueros, a central committee secretary, held more than three hours of talks with Mr Ceausescu but a Hungarian official said yesterday that he came away with the impression that Romania was "not prepared to compromise."

A Romanian plan to raze thousands of villages, many inhabited by ethnic Hungarians in Transylvania, has worsened already tense relations between the two.

The visit by Mr Szueros was the outcome of a summit on August 30 between President Ceausescu and the Hungarian leader, Mr Karoly Grosz. Their joint communiqué failed to mention the problem of the Hungarian minority.

Polish vote raises doubt over support for Rakowski

By Christopher Bobinski in Warsaw

THE POLISH Parliament yesterday approved Mr Mieczyslaw Rakowski as the country's new Prime Minister amid doubts about the strength of his support within the political establishment as well as mistrust by the Roman Catholic Church and the Solidarity opposition.

Mr Rakowski, who was presented by General Wojciech Jaruzelski, the party leader, as "an advocate of reform and dialogue," won the votes of 338 Deputies including the entire Communist contingent, while five Deputies voted against and a further 35 abstained.

The smattering of "no" votes and abstentions is high for an occasion of this kind, and it suggests fears from the subordinate Peasant and Democratic parties that Mr Rakowski will seek to diminish their role in the new Government.

Also among those abstaining were Mr Jan Dobraczynski and Mr Jerzy Ozdowski, both long-standing Catholic legislators who in the past have never strayed from the official line but who yesterday sought to reflect the Church's deep reservations about the new Premier.

Mr Rakowski, 62, is a long-standing Communist party member who edited the liberal weekly Polityka in the 1960s and 1970s and who was a member of Gen Jaruzelski's government between 1981 and 1985. Last year he wrote a major policy paper criticising the Government for failing to stand up more to the Church as well as the opposition and the official OPZZ unions.

In Parliament yesterday Gen Jaruzelski sought to allay Church fears, and stressed that improving relations was an important segment of official policy, and, indeed, it seems that Mr Rakowski will moderate his views on this issue.

Gen Jaruzelski also stressed that the new Government's priority tasks should be to combat inflation, increase agricultural produce and speed up housing construction. The Government, he said, should also undertake new efforts to improve its external financial relations. He implied this meant winning better terms from Western governments and banks on Poland's $38bn debt.

In his acceptance speech Mr Rakowski asked for 14 days to form a new Government, the criteria of membership for which would be "support for reforms." He indicated that he was asking opposition figures to join. However, the pro-Solidarity opposition seems uniformly dismayed at his appointment and approaches already made to their supporters have been turned down.

In his short speech Mr Rakowski made no promises to the OPZZ official unions who were instrumental in toppling his predecessor, Mr Zbigniew Messner. He merely undertook to "listen carefully" to OPZZ views.

Yesterday the authorities held up the debate on draft laws on foreign investment in Poland and on domestic business activities. Both have been criticised and it is thought that the new Government may prepare more liberal drafts.

Rakowski: Church fears

Outlook for Sweden gloomy say banks

By Sara Webb in Stockholm

SWEDEN FACES a period of lower economic growth, rising inflation and escalating wage costs, according to reports released this week by two leading banks.

They warn that the surge in wage costs will rapidly undermine the competitiveness of Swedish industry abroad and lead to a loss in market share for Swedish exports.

Skandinaviska Enskilda Banken and Svenska Handelsbanken, Sweden's largest and second-largest banks respectively, forecast gross national product growth in the range of 2.5-2.6 per cent for 1988 with a further slowing down to between 1.5-1.8 per cent in the following year. Growth for 1987 was 2.7 per cent according to Handelsbanken.

Both banks warned that the major problems to be tackled by Sweden's Social Democrat Government, which was re-elected two weeks ago, are inflation and high wage costs, calling for tighter economic policies.

Handelsbanken expects inflation to reach 6.7 per cent this year, compared with an OECD average of 3.5 per cent, and said it would probably rise to 8 per cent in 1989.

The Swedish economy, with an unemployment level of about 1.8 per cent, suffers from acute labour shortages in certain sectors which have helped push up wages.

Wage costs are forecast to increase by 8-9 per cent this year, according to the banks' reports.

The outlook for the forestry sector remains good with strong demand leading to increased exports despite the fact that the sector is already running at full capacity.

However, Sweden's trade balance is expected to show a decline in the size of the surplus, from SKr23bn (£2.14bn) this year to SKr20bn in 1989, while the balance on the current account is forecast to deteriorate further from a deficit of SKr5.4bn last year to SKr12bn in 1988 and SKr17bn the year after.

Court sets EC competition landmark

By Tim Dickson in Luxembourg

THE EUROPEAN Court yesterday made what could prove to be one of its most far-reaching rulings in deciding that the European Community can apply its competition rules to companies based outside its immediate territory.

Lawyers will no doubt pick over the nuances for years to come, but the general view in Brussels yesterday was that the Court had confirmed unequivocally the Commission's right to apply its jurisdiction over a group of mainly Finnish, Swedish, US and Canadian pulp producers which allegedly operated a price fixing cartel inside the EC.

The whole question of "extra territoriality" is a highly controversial one on both sides of the Atlantic, but while many experts will be keen to draw parallels it remains to be seen whether the judgment will have wider implications for the future of, say, trade relations between Europe and the US.

The case stems from the Commission's decision in 1984 that 41 wood pulp producers – among them Bowater of Connecticut, MacMillan-Bloedel and Westar Timber of Canada and a 12-strong group of Finnish companies – plus two trade associations had "engaged in concerted practices" in setting the prices of bleached sulphate pulp, a high quality variety used in the manufacture of quality writing paper and quality paperboard (such as milk cartons).

The Commission's subsequent fines were in some cases reduced where companies gave undertakings about their future behaviour, but at no stage did the alleged offenders admit their guilt.

The primary object of the case which reached its conclusion yesterday was to establish whether the Commission was justified in applying the Rome Treaty's competition rules to the parties in question.

In reaching its verdict on the individual companies, the Court argued that where wood pulp producers outside the Community sell directly to purchasers inside "and engage in price competition to win orders . . .that constitutes competition within the Common Market."

"It follows that where those producers concert on the prices to be charged . . .they are taking part in concertation which has the object and effect of restricting competition within the Common Market within the meaning of Article 85 of the Treaty."

Rejecting the view that the Commission's action contravened international law, the Court observed that "if the applicability of prohibitions laid down under competition law were made to depend on the place where the agreement, decision or concerted practice was formed, the result would obviously be to give undertakings an easy means of evading those prohibitions. The decisive factor is therefore the place where it is implemented."

Enlarging on this point the Court said it was "immaterial" whether the companies operated through subsidiaries, agents, sub-agents or branches in their dealings with customers.

Some observers noted yesterday that the judgment did not make any reference to the "effects doctrine", a controversial principle of law whereby legal action is justified by reference to the effects of the alleged anti-competitive behaviour. Considerable emphasis was placed on the importance of "qualified effects" in the Opinion broadly supporting the Commission issued earlier this year by the Advocate General, Mr Marco Darmon.

The Court's reasoning was being interpreted by some last night as amounting in practice to much the same thing.

That issue is of particular importance to the UK, which, while supporting the Commission's right to take action against subsidiaries and agents, intervened in support of the Pulp, Paper and Paperboard Export Association of the US because of its dislike of the "effects doctrine". The Court found in favour of that association but on different grounds from those argued by the UK.

Dutch plans to make the motorist pay

BIG BROTHER could soon be keeping a beady electronic eye on road-users in the Netherlands, as the Government tries to cut down traffic jams, Reuter reports from Amsterdam.

The Transport Ministry is developing two forms of electronic fingerprinting aimed at keeping private cars off roads at peak times.

The first method, the "smart card", contains an electronic profile of its owner and a sum of credit. Each time the card passes a road checkpoint a pre-set sum of money is deducted.

When the credit reaches zero the user will get a gentle reminder, followed by prosecution if credit is not topped up. Simply leaving the card at home would not fool the system, as road checkpoints would automatically photograph the offending vehicle.

The second system being studied would fit an electronic fingerprint to each vehicle. The user would get a regular bill according to the number of checkpoints passed.

CSR hits back over withdrawal of insurance

By Chris Sherwell in Sydney

CSR, the Australian industrial group facing heavy claims from sufferers of asbestos-related disease, yesterday fought back against last week's withdrawal of its insurance cover by the Western Australian State Government Insurance Commission (SGIC).

The company angrily accused the commission of failing to provide reserves to cover claims against CSR, and of taking out "next to no reinsurance." It claimed the government was behind the commission's reluctance to proceed, and said it would be taking the commission immediately to court.

The matter has become a major problem for CSR, and is rapidly becoming a political issue in Western Australia, with both the premier of the Labor Party state government and the leader of the state's opposition speaking out publicly on the problem over the past two days.

The disputed SGIC cover concerns Midalco, the CSR subsidiary which operated the Wittenoom asbestos mine in Western Australia until it closed in 1966. The mine, since dubbed "Australia's Bhopal," has so far been the subject of 288 claims, most of them relating to asbestosis. Only a handful have come to court.

The commission's sudden announcement last week that its policy was now "considered to be inoperative" followed the Victoria Supreme Court's dismissal of CSR's appeal against the award of A$250,000 (£117,000) exemplary damages to Mr Klaus Rabenalt, a former Wittenoom employee suffering from the incurable asbestos-related lung cancer called mesothelioma.

Responding yesterday, Mr Ian Burgess, CSR's managing director, said it was "absolute nonsense" for the commission to say CSR had withheld information. For more than a decade it had had free and total access to all Midalco's information about the operation and had used the information to defend court cases it ran and paid for.

The risks of the Wittenoom mine were insured with the commission from 1943, Mr Burgess stated, and the commission had regularly inspected the mine and taken advice from the state's health and mines departments.

"There must be questions as to the practices and motivation of the SGIC," he said. "The SGIC have told that they have allocated no reserves to cover the Wittenoom payments and that they have taken out next to no reinsurance on the Wittenoom claims to spread the risk. The SGIC have told us that the Attorney General in Western Australia is behind the SGIC's reluctance to proceed. We wonder why?"

Mr Burgess confirmed that total liability was estimated at A$50m. The SGIC insurance concerns about A$30m of this, relating to claims between 1959, when its unlimited cover began, and 1966, when the mine was shut. Midalco has already agreed to bear the remaining A$20m liability, relating to claims before 1959, when the SGIC's covers was more limited.

He acknowledged that the process of settling claims had been far too slow, and repeated that CSR wished to settle post-1959 claims quickly. But it could not do so without the SGIC's approval. If the SGIC had a case for others paying, it should pursue the matter in court, he said. "A few people are close to death. We want to work with the SGIC to compensate them before they die."

The SGIC offered no immediate response to the CSR claims last night. The company's legal challenge to last week's action by the commission is expected to come to court next Monday.

Arbitrators award Taba to Egypt

By Eric Silver in Jerusalem

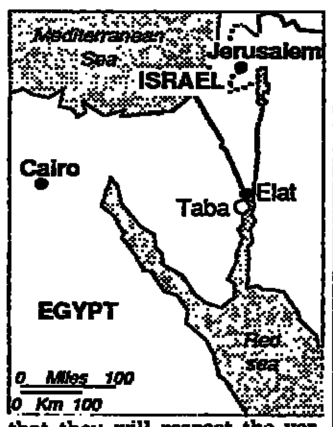
ISRAEL radio reported yesterday that international arbitrators had ruled in favour of Egypt in the dispute over the Taba resort south of Eilat on the Red Sea coast. Their findings are to be published in Geneva tomorrow.

The dispute dates back nine years to the Israeli-Egyptian peace treaty under which Israel agreed to withdraw from the whole of the Sinai peninsula it occupied in the 1967 war. Jerusalem claimed that the border ran south of the tiny bay, 850 metres wide, where an Israeli entrepreneur had built the luxurious Avia Sonesta beach hotel. The Egyptians insisted that it ran to the north.

The dispute was referred to arbitration after repeated attempts to negotiate a compromise failed. Israel has become reconciled to losing in the face of apparently well-founded leaks that history was on the side of Egypt.

Taba threatened at one stage to divide the National Unity Government, with the right-wing Likud blaming Mr Shimon Peres, the Labour Foreign Minister, for agreeing to arbitration. But the signs now are that the Likud will not inflate it as an issue in the November election campaign.

A Foreign Ministry spokesman said yesterday: "Israel and Egypt have made it clear



that they will respect the verdict in letter and spirit." That remained Israel's position. Officials noted, however, that the arbitration was restricted to drawing a permanent border. It did not deal with the fate of Israeli property – the Sonesta and a grass-hut holiday village.

Egypt indicated last month that it was prepared to discuss "functional arrangements" for access by Israeli tourists, once Jerusalem acknowledged Egyptian sovereignty.

Mr Eli Paposhado, the owner of the Sonesta, declined yesterday to discuss the future of his hotel until the verdict was published. All the precedents suggest that Egypt will insist it be handed over to them, and that Mr Paposhado will be generously compensated.

Canadians mourn the downfall of Big Ben

By David Owen in Toronto

THE NEWS hit Canada like a cyclone. Big Ben – had tested positive for steroids.

Coming so shortly after the transfer of Wayne Gretsky, the Edmonton ice-hockey player and the country's top sporting hero, to Los Angeles the blow was particularly savage.

What is more, Johnson was the type of hero that Canadians love: a man who had overcome the disabilities of his deprived Jamaican childhood and a speech impediment to excel.

Seen in counterpoint to the perceived arrogance of Carl Lewis his American arch-rival, Johnson's refreshing humility and bumbling inarticulateness were particularly appreciated.

After the initial disbelief had worn off, the reaction of the Canadian-in-the-street was one of profound disappointment. "We looked up to him as a hero," said one passer-by on Toronto's Bay Street shaking her head. "Ben Johnson – how could you?," exclaimed Mr John Anderson, a news anchor on local radio for all to hear.

Johnson's disgrace was also a potential embarrassment to Canadian Prime Minister Brian Mulroney, who had telephoned to congratulate the muscular sprinter shortly after his victory. The exchange was featured prominently on the evening television news.

Mr Mulroney, who is expected shortly to call a general election, later described Johnson's disqualification as "a moment of great sorrow for all Canadians."

While Johnson's family and Mr Larry Heidebrecht, his shell-shocked agent, continued to protest that the athlete was innocent, maintaining that his fluid intake must have been doctored.

The world record holder's many sponsors have been taking no chances. Advertisements featuring Johnson's powerful image have abruptly disappeared from newspapers and television screens. "Today, you stand alone," proclaimed one of them all too prophetically.

Estimates of how much the scandal will cost Johnson vary widely – but it could be as much as $2m in performance-related bonuses alone.

According to Mr Heidebrecht, each sponsorship deal that the athlete has signed contains a clause freeing the sponsor from obligations should he test positive for drugs. The agent had said last week that Johnson had earned "seven figures" since last summer when he shattered the world 100 metre record at a track meeting in Rome.

Johnson's biggest contract is said to be a five-year deal with the makers of Diadora sportswear. This is worth a basic $1.5m and considerably more in performance bonuses. Among his other sponsors are Toshiba Canada, American Express Canada, Purolator Courier and the food company Loblaw. His endorsement was used in Japan to promote credit cards, toiletries, petrol and a publisher's yearbook.

His earnings over the four years leading up to the Barcelona Olympics are said to have been worth a cool $10-$15m.

Pakistan poll

THE LAHORE High Court has ruled that the grounds given for the dissolution of Pakistan's assemblies in May by the late President Zia were illegal. However, they ruled against restoring the assemblies and said elections should still go ahead on November 16, writes Christina Lamb in Islamabad.

Drug dangers to athletes and their sports

James Blitz looks at what sportsmen can take illicitly to boost their performances

STANOZOLOL, the drug that has cost Ben Johnson his career, is an anabolic steroid commonly used by athletes who want to enhance their performance with drugs.

Last year, the International Olympic Committee, discovered 37 cases in which athletes had used Stanozolol out of a total of 521 infringements using anabolic steroids.

Steroids are related to the male hormone testosterone and they make cells proliferate and grow: hence the huge muscles on athletes who use the drug. Dr David Cowan of the Drug Control Centre at London University says Stanozolol is used to stimulate hormones while an athlete is training; but it can also enhance performance when taken shortly before the competition itself.

Although steroids are the most popular drug among athletes who seek to enhance their performance, several others are also misused by sportsmen and women:

- Stimulants are the second most commonly taken, with 301 infringements last year. They stimulate the central nervous system allowing the body to tolerate higher levels of the pain that causes lactic acid.
- Beta-blockers inhibit the release of adrenalin and are used in sports such as archery and shooting.
- Diuretics are drugs which help with urination and are used to help reduce body weight shortly before a competition.
- Blood-doping can also be used by athletes. A pint of blood is withdrawn from the athlete who then makes up the deficiency. It is re-injected before competition to enhance the capacity of the circulatory system to carry oxygen to the muscles.

A problem the athlete faces is that small traces of substances such as steroids are detectable in urine for longer than expected. According to Dr Cowan, Ben Johnson probably did not realise that the stanozolol used in his early training would show up some time later in the test.

The methods used to detect traces of the drug are highly sophisticated. Tests tend to be based on the principle of chromatography, the separation of substances by passing them through an absorbing medium. One method involves converting the sample into a vapour and passing the gas through a column. There it reacts with an organic liquid-film which absorbs each substance differently. Such a method might detect chemical particles the size of a billionth of a gram.

When an athlete takes anabolic steroids, he is misusing a drug that has a proper medical function: they are prescribed, for example, to underweight children to help them overcome protein deficiency. In both Britain and the US such drugs are only properly obtainable with a doctor's prescription.

According to Ms Michele Verroken of the Sports Council in Britain, most steroids originate in the factories of pharmaceutical companies for proper use. The weak link comes with the retailing: "At the distribution and prescription stage the drugs fall into the hands of those who want to use them for different purposes."

Alternatively, steroids are smuggled into a country to be sold on the black market. Last year David Jenkins, the British athlete, pleaded guilty in a US Court to participating in a multi-million dollar racket that smuggled steroids manufactured in Mexico into the US.

The Jenkins case illustrates the determination of the authorities in the US to seek out and punish the black market traders in steroids. However, the buying and selling of the drug remains rife in sports clubs and gymnasiums in the US and Britain. In the UK, the authorities have undertaken fewer cases against the black market traders in steroids. But last year a man was sentenced to nine months imprisonment under the Medicines Act 1968 which forbids the sale on the street of medicines that must be prescribed.

Because they have a proper medical use, legislation to prosecute the possession of anabolic steroids by athletes has not yet been initiated in either Britain or the US. But earlier this month, Mr Douglas Hogg, the British Home Office Minister, said he would consult the medical and pharmaceutical professions with the aim of bringing the drugs under legal control.

If such legislation is passed it will be less with the interests of sport in mind than with the health of the athletes. Disturbing evidence has appeared in

On his way out: Ben Johnson at Seoul's Kimpo airport

the last few years which indicates that steroids can have serious side effects when taken for the wrong reason. Last year, for example, steroids were blamed for the death of an Essex body-builder who had been taking the drug since the age of 18.

For the competitors who take drugs, there might be more to lose than medals.

Japan slowed by concern for Hirohito

Life revolves around news of the emperor, **Michiyo Nakamoto** and **Ian Rodger** report

THE stooped, elderly man waiting patiently in front of Tokyo's Imperial Palace wiped the tears from his eyes. "I can only pray that he gets well soon. Of all the emperors, Emperor Hirohito suffered the most. He was criticised by people all over the world for Japan's part in World War Two.

"Unless you have experienced the war, as I have, it is very difficult to understand this feeling," he added and bowed reverently towards the palace. Since last Thursday, when ordinary people were first invited to the palace gates to show their respect for the critically ill emperor, more than 1.4m have signed their names in books provided by the Imperial Household Agency.

Many have stood in the rain for hours, and the queues have been so long that the agency has been obliged to leave the gates open much longer than it intended. A few have queued all night. Most are elderly people for whom the emperor remains a symbol, not only of the nation but also of their own long lives.

He was there with them through the devastating war and then through the post-war years when they worked so hard and so effectively to catch up with the West.

Young people too are concerned about his failing health. One housewife came to pay her respects carrying her two-month-old baby and with her two-year-old daughter trailing behind. "I wanted to come as soon as I heard he was ill," she said. "The Emperor is the most important symbol for the Japanese people."

Others have a more detached attitude but still want to pay their respects. As one middle-aged banker remarked, "I have no particular feelings about Emperor Hirohito, but I hope he gets well. Everybody hopes so." This outpouring of sympathy for the emperor has surprised the Japanese themselves. Recent public opinion polls have suggested that the public no longer had strong feelings about the emperor.

He himself has been reclusive for most of the post-war period. But ever since the first reports emerged early last week that the 87-year-old emperor had fallen critically ill, the pace of life in Japan has slowed dramatically. Ministers have cancelled official trips abroad, visits of foreign dignitaries have been postponed, big corporations have cancelled parties and the stock market has sagged.

Daily life revolves around the frequent and extraordinarily detailed bulletins on the emperor's condition on every television and radio station, featuring graphs on the progress of his temperature, pulse, blood pressure and breathing rate and charts of blood transfusions.

The Japanese people have learned that as long as the Olympics are on the screen, the emperor has not taken a turn for the worse. For all this attention, little precise information has emerged from the highly secretive Imperial Household Agency on the emperor's illness.

Last year, he underwent intestinal surgery to bypass a blockage caused by an inflamed pancreas. Court doctors said afterwards that no evidence of cancer had been found, and he appeared to make a full recovery.

However, while on his summer holiday last month at the royal villa at Nasu, north of Tokyo, he suffered briefly from high fever on two occasions. Last week, he again became feverish and began discharging blood. There have been hints that high government officials, who are trying to make plans for the future, are annoyed at the lack of information emanating from the agency.

Open discussion about about what will happen when the emperor dies is virtually taboo. The Mainichi Daily News, the weak English language sister to one of the country's leading newspapers, made the unfortunate error on Monday of printing a leading article that it had prepared in advance to lament the emperor's death. The president of the company apologised profusely to the agency and two top executives have been dismissed.

In any event, yesterday the emperor's condition stabilised, his temperature returning to normal and the signs of internal bleeding disappearing. He received the head of the Imperial Household Agency for the first time since early last week and asked him to thank the people "for worrying about me." He also inquired about the effects of recent heavy rains on the rice crops.

Meanwhile, on radio and television, the bulletins became less frequent and, for the first time in 10 days, took second place behind another story, the controversy over Canadian Olympic athlete, Ben Johnson.

Overseas investment in S Korea up 66.8%

FOREIGN businesses invested $986m in South Korea in the first eight months of this year, up 66.8 per cent from the same period last year, the Finance Ministry reported yesterday, AP-DJ reports from Seoul. Officials said that the figure is certain to exceed the previous record of $1.06bn last year.

About 53.2 per cent or $525m of the January-August tally, on an approval basis, went to service industries, including hotels, financing and fast food businesses.

The officials said the Government's easing of restrictions on foreign capital investment has contributed to the rapid rise in the inflow of foreign funds. Foreign investment in the country has averaged $155m a year over the past 26 years.

The South Korean economy, which grew 12 per cent in real terms last year, is expected to grow about 10 per cent in 1988, according to the Economic Planning Board.

Some South Korean economists and businessmen also hope that the Olympic Games now under way in Seoul will help spur economic growth. Following the Games, about 20 countries, including Western and communist countries, are scheduled to send trade and investment missions to South Korea in October and November.

UK and Iran prepare for renewal of links

By Robert Mauthner, Diplomatic Correspondent

SENIOR British and Iranian officials met in Geneva yesterday to lay the foundations for a normalisation of diplomatic relations between their two countries.

The officials – Sir David Miers, assistant undersecretary of state for Middle Eastern affairs at the Foreign Office and Mr Mahmoud Naezi, head of the Iranian Foreign Ministry's West European desk – were preparing the ground for a meeting in New York on Friday between Sir Geoffrey Howe, the British Foreign Secretary and Mr Ali Akbar Velayati, his Iranian opposite number.

Anglo-Iranian relations, which have been virtually frozen since June last year, when each side reduced their representation to a single diplomat after an Iranian diplomat in Britain was detained for shoplifting and a British diplomat was beaten up by Iranian Revolutionary Guards, only recently started to improve.

The main triggers for the thaw were an agreement on mutual compensation for damage suffered by their respective embassies in Tehran and London and Iran's acceptance of United Nations Security Council Resolution 598, which called for a ceasefire in the Iran-Iraq conflict.

Britain has made it clear that a resumption of normal relations would only be possible if the security of British diplomats in Tehran was guaranteed and there was complete reciprocity of the number and rank of diplomats in the two capitals. The view in London is that, in the first instance, it would be more desirable to re-establish relations at chargé d'affaires rather than ambassadorial level and that an exchange of ambassadors should wait until the improvement in relations had taken root.

Opposition in Burma set up political party

By Roger Matthews in Bangkok

BURMA'S most visible opposition group yesterday announced the formation of a political party, the League for Democracy, and urged people to defy the Government's order to return to work by next Monday.

The League is chaired by Brig Aung Gyi, who was heir-apparent to Gen Ne Win at the time of the military coup in 1962 but later resigned and was imprisoned for a while.

He emerged from obscurity earlier this year with a courageous series of open letters criticising General Ne Win's policies.

The deputy chairman is Gen Tin U, also imprisoned for several years by Ne Win, with Aung San Suu Kyi as secretary-general.

Aung San Suu Kyi may emerge eventually as the League's most forceful personality because of her relative youth and rapport with the students and monks who led the street demonstrations.

It is understood to have been primarily her influence which stopped the League's 12-strong management committee from making an early announcement about its willingness to participate in elections promised by the military regime of Gen Saw Maung.

The new party switched its name at the last moment from the National United Front for Democracy to avoid confusion with the National Unity Party, the regime's new political organisation.

Deficits overshadow India's rapidly growing economy

David Housego identifies decisions that may have to be taken to avoid overheating as agriculture reverses its decline

IT SEEMS almost churlish in a year in which the Indian economy is likely to have its highest economic growth rate in over a decade to point to the clouds that bear the silver lining.

But the boom around the corner is already being overshadowed by the harsh decisions needed to rein in current account and budget deficits and to restrain an economy in danger of overheating.

The good news is that the abundant monsoon will reverse the last three years' decline in agricultural output that was brought about by the drought and boost the rise in real gross national product to around 10 per cent. This was the forecast before this week's floods in northern India which are likely to have done significant damage to crops and irrigation systems. More money in farmers' pockets will push up demand for industrial goods and investment in a manufacturing sector that has been growing much faster in recent years than the post-war trend.

This good news is already being reflected in a buoyant stock market where share prices are also being pushed up by good corporate profits and an apparent abundance of liquidity among the financial institutions and individual investors.

Swirling flood waters in northern India yesterday left towns and villages cut off, houses destroyed and crops damaged, David Housego writes.

More than 300 people in the states of Punjab, Haryana, Jammu and Kashmir, and Himachal Pradesh – the provinces worst affected – were reported to have lost their lives. The waters of the Yamuna which flows through Delhi rose to their highest for 10 years forcing slum dwellers living close to the river banks to leave their homes. The Old Yamuna rail bridge was closed disrupting rail traffic to the capital and across much of northern India.

Officials said that damage to crops was still difficult to estimate. But in the Punjab, India's richest agricultural area, a third of the villages were affected by flooding. Rice, maize and sugar cane fields all appear to have suffered.

The stock market boom is itself a sign of the inflationary pressures gathering momentum in the economy and which generally strengthen in the wake of a drought. But beyond these loom longer term constraints on growth of rapidly climbing domestic and external debt that reflect large cumulative current account and budget deficits.

The current account deficit reflects what has been the strongest feature of Prime Minister Rajiv Gandhi's economic management – his continuing, if unevenly paced commitment to deregulation and import liberalisation as a way of regaining some of the industrial competitiveness that India has lost to other Asian economies. By contrast the sharp deterioration of the public finances reflects the other aspect of his rule – weak leadership and a failure to get a grip on the machinery of government.

Indian officials are the first to concede that they had expected that the late 1980s would be a time of uncomfortable balance of payments pressure. Coinciding in India's disadvantage have been the liberalisation of trade policy, a sharp drop in India's share of concessionary loans among developing countries, a calculated rise in commercial borrowing to sustain investment and growth, and a bunching of repayments to the IMF.

Until April – the end of the Indian financial year – the tightrope act looked difficult but manageable. The current account deficit has averaged over 2 per cent of GDP over the last three years or 25 per cent higher than the planned target. Total outstanding debt (including short-term debt and foreign currency deposits by non-resident Indians) had risen by two thirds over five years to $52.3bn.

The debt servicing ratio climbed more sharply from 13 per cent in 1985 to 25 per cent in April this year reflecting the sharp increase in commercial borrowings. But over the last few years the gross foreign exchange reserves have remained fairly stable at about $7bn or four and a half to five months of imports.

What caught officials by surprise and raised eyebrows among bankers was the unexpectedly dramatic $1.4bn drop in the foreign exchange reserves in the first quarter of this financial year. This was caused largely by a sharp worsening of the trade deficit. The reserves have marginally risen since then but still remain at equivalent to a low three and a half months of imports. At this level they represent little more than half the $9.9bn of non-resident deposits held with the Central Bank by Indians living abroad – and which foreign bankers consider volatile funds that could leave the country if ever Mr Gandhi's government seemed likely to be overturned.

Officials say that sustained export growth is the key to containing India's balance of payments problem. Exports have been growing by more than 10 per cent a year in real terms over the last three years – or well above the trend rate – with the bulk of the increase coming from manufactured goods. But India's world share of export markets remains only 0.5 per cent and there is not much leeway for any increase over the short term – particularly with domestic demand picking up in the wake of the monsoon.

The Government has thus turned to further commercial borrowing and to screening imports of both capital goods and bulk commodity products more carefully. There is no sign that Mr Gandhi would reverse his commitment to liberalisation. But in an election year there is also no doubt that deregulation and an open trading policy are seen as unpopular because they favour the minority business community.

Foreign bankers have always taken heart when reviewing India's credit worthiness by the Government's reputation for prudence in incurring external debt. But as Mr D.R. Pendse, chief economist of the Tata group, has pointed out, the reverse has been true of India's handling of its domestic debt. "We have borrowed indiscriminately," he says.

The combined deficit of the central Government and the states at Rs83.2bn ($5.7bn) this year is four times larger than it was only five years ago and accounts for over 8 per cent of GDP.

Nobody expects a Government that faces an election over the next 12 months to take harsh measures now. But fear that its grip over the public finances will grow laxer as the election approaches is one reason why the economy could overheat.

In purely economic terms Mr Gandhi thus needs to catch the electorate when the impact of the good monsoon is making itself felt in higher incomes and demand – but before this passes through into higher inflation. On those criteria the spring looks the best bet.

Japan unveils Third World debt initiative

By Stephen Fidler in West Berlin

JAPAN finally unveiled a long-anticipated initiative to relieve the debt burdens of developing countries in Berlin yesterday.

Announcement of the plan was made yesterday by Mr Satoshi Sumita, the Japanese central bank governor at the annual meeting of the International Monetary Fund and the World Bank.

The plan – which the Japanese are dubbing the Miyazawa initiative after the Japanese Finance Minister – envisages relieving the debt burdens of middle-income debtor countries by helping to restructure and convert loans into securities.

Precise details have not yet been finalised, but it calls for a debtor country to establish a reserve account funded by its own resources but held in trust at the IMF. This is meant to enhance the certainty of repayment to creditors.

The idea was first floated by Mr Miyazawa at the Toronto summit in June.

Significantly, the proposal does not call for guarantees from industrialised countries or from the IMF or World Bank. Finance ministers from the Group of Seven industrialised countries reiterated opposition to risk transfers from the private to the public sector at their meeting this weekend.

Under the Miyazawa initiative, there are two preconditions for countries to be eligible to benefit. An IMF programme must be in place and there must be pledged funds from bilateral and multilateral institutions.

It has not been made explicit how this fits in with a separate Japanese plan announced this week which would provide untied loans from the Japanese Export-Import Bank for countries with IMF programmes as part of efforts to recycle the Japanese current account surplus. It is conceivable that some of the bilateral funding required as a precondition could be provided through the Ex-Im Bank.

Mr Nicholas Brady, the new US Treasury Secretary, said that the US "regards with scepticism proposals that may appear to conform to the basic principles of the debt strategy, but which in practice only produce an illusion of progress."

This would make the debt problem intractable by weakening the international institutions, undermining reforms in debtor countries and building opposition among taxpayers in creditor countries.

However, US officials indicated that the Brady statement was not specifically aimed at the Japanese proposal.

Mr Sumita said that the scheme would have to be structured to meet three conditions. It must be consistent with the case-by-case approach to resolving the debt crisis, market-oriented, leaving creditor to banks free to participate or note, and could not involve any transfer of risk.

Because the reserve accounts would be funded by developing countries themselves, it appears the initiative would mainly be applicable when the countries' hard-currency inflows would be significant in relation to their total debt.

Catcalls greet bankers

DEMONSTRATORS continued organised protests yesterday against the IMF-World Bank meeting after a night of ugly clashes with the police, Leslie Colitt writes from Berlin. Nearly 50 demonstrators entered Tegel airport terminal yesterday morning for what was billed as a "welcoming ceremony" with catcalls and stink bombs for bankers. Four people were taken into custody and 160 others stopped by the police on their way to the airport.

Trouble began on Monday evening when nearly 1,000 young people gathered for unauthorised demonstrations at several spots in mid-West Berlin and were dispersed by at least as many baton-wielding policemen.

The most serious clash took place near the Opera House where the police were massed to protect officials and bankers in the city for the meetings.

Nearly 5,000 West Berlin policemen and 3,700 reinforcements from West Germany have been mobilised.

Further 'greening' of the Bretton Woods institutions

David Marsh reports that environmental politics have reached the centre-stage of this week's talks

ENVIRONMENTAL politics this week has reached the centre stage of international finance.

It may come as scant consolation to the demonstrators who have been milling around Berlin castigating the IMF and World Bank for ruining and polluting the Third World. But in line with the growing attention given to global ecological issues, the conference has seen a further step towards the "greening" of the Bretton Woods institutions.

The West German and Canadian governments in official speeches have spearheaded the move towards increasing the attention to environmental protection in lending to developing countries. Mr Michael Wilson, the Canadian Finance Minister, spoke yesterday of a growing realisation among industrial countries of the link between poverty and environmental damage in the Third World.

"If you have people who are hungry, they are going to do things for survival. They are not going to care about the influence on the environment," he said.

Mr Kenneth Piddington, the director of the World Bank's newly created Environment Department, admits that there is clear evidence that in the past the Bank engaged in projects where environmental considerations were not dealt with adequately. The creation of the department last year, with a basic staff of 34 complemented by regional employees and consultants, was a direct response to criticism of the Bank's lack of ecological sensitivity.

The World Bank has come under fire for backing projects ranging from the Brazilian Carajas iron ore project to dam programmes in India and pesticide purchases in Africa which, in various ways have despoiled natural resources. However, the shift is also encouraged by a changing international concept in development. The protection of the environment is slowly taking its place, alongside the other "infrastructure" aims of improving health and education, as a tenet of the World Bank.

The Bank is also trying to move environmental consciousness "upstream" into borrowing countries' planning procedures. This would allow ecological criteria to be built in at an early stage into development of countries' water resources or agro-cultural programmes – avoiding far-reaching mistakes which are either irreversible or can be righted only at enormous cost.

The Bank already has an insight into these costs. It is ploughing money into developing world ventures aimed at alleviating some of the appalling ecological consequences of industrialisation.

Chief of these are air and water pollution, especially in the new urban centres. The fresh interest in environmental problems in the South is partly prompted by guilty consciences in the wealthy industrialised countries of the North.

But two other underlying points are probably more significant. The first one has less to do with morality than with self-interest. A spate of environmental accidents and problems during the past few years, from the Chernobyl nuclear catastrophe to this summer's international toxic waste scandal, has underlined that consequences of ecological damage cross national boundaries.

Second, West Germany and Scandinavia have shown that a rigorous approach on the environment can be consistent with - and indeed promote - economic efficiency. This view is gaining ground, but is still not widespread. Mr Piddington says that the business community often takes the fatalistic view in relation to the Third World that ecological damage goes hand in hand with development. "There is an over-simplified approach that you can't make an omelette without breaking eggs," he says. "In fact, there are many cases where you can produce solutions which are optimal economically and environmentally."

'Invisible Man' Brady bides his time at the talks

Philip Stephens reports on a dilemma which awaits the newly appointed US Treasury Secretary

THERE IS a rather cruel joke circulating among officials at this week's annual meeting of the International Monetary Fund.

As the world's finance ministers debate the pressing topics of exchange rates, policy co-ordination and debt, there are two invisible men, the joke runs. One is Mr Kiichi Miyazawa, the Japanese Finance Minister, who had to stay in Tokyo because of the illness of Emperor Hirohito. The other is Mr Nicholas Brady, the newly appointed US Treasury Secretary, who is here in Berlin.

It is Mr Miyazawa, the punchline goes, who is exerting the greater influence.

The joke, of course, is unfair. Mr Brady has been in office for less than a week. He could hardly be expected to have translated his experience as a Wall Street financier into mastery of the intricacies of the international monetary system in such a short period.

Instead the new Secretary, who hopes to keep the Treasury job if Mr George Bush wins November's presidential election, has been content mostly to listen.

At the weekend talks of the Group of Five and Group of Seven nations he deferred most of the time to Mr Alan Greenspan, the chairman of the US Federal Reserve.

Cast in the long shadow of his powerful predecessor Mr James Baker, he has preferred to gauge others' opinions rather than proffer new ones of his own.

"He confirmed that he would stick with Baker's commitment to policy co-ordination and said that cutting the budget deficit would be a priority for Bush. But there was nothing new," one European finance minister said after lengthy talks with his US counterpart.

Mr Nigel Lawson, Britain's Chancellor, offered only the observation that he was a "jolly nice chap."

Mr Brady's speech to the IMF's annual meeting was similarly an expression of continuity with the policies developed by Mr Baker.

Washington would seek to develop the policy co-ordination process launched by his predecessor at the time of the Plaza accord and at the Tokyo world economic summit in 1986 as a "pragmatic approach to strengthening the international monetary system."

For the time being at least the US Administration also remains determined to preserve the Baker plan for dealing with the Third World. Mr Brady said that he regarded with scepticism the various initiatives which have surfaced at this week's meetings.

Meanwhile, the nitty gritty of negotiations with other countries both within the G7 and outside has been left to Mr David Mulford, the Assistant Treasury Secretary, who has several years of experience on the international circuit. He has indicated that he too would like to stay on if Mr Bush wins in November.

Nicholas Brady: a willing listener at this week's talks

But if it is unfair to judge Mr Brady on the basis of one meeting, the original joke does carry an interesting message. Japan, which has been flexing its muscles in international economic diplomacy for some time now, has taken full advantage of the power vacuum left by Mr Baker's departure.

Mr Satoshi Sumita, the central bank governor who is deputising for Mr Miyawaza, has grabbed the headlines with two new debt initiatives – one of which seems certain to irritate Washington.

The clear message is that once the US election is out of the way, the new Administration cannot expect to set the agenda for international policy-making on its own. The world's largest creditor nation will demand an audience for its ideas. If he is still there in January Mr Brady will have a lot to learn.

Developing countries warned on debts to IMF

By David Marsh in West Berlin

A WARNING for developing countries which fail to repay debts to the International Monetary Fund was made yesterday by Mr Kjell-Olof Feldt, the Swedish Finance Minister. He said such arrears showed "disquieting signs" of a change of attitude towards the Fund by some member countries.

Mr Feldt, who is current chairman of the IMF and World Bank boards, stressed the need for strengthening the resources of both the Fund and the World Bank to cope with greater calls on their operations in coming years.

He bracketed his remarks with a call for the Bretton Woods institutions to be assured of the complete backing of their members. "Unflagging support is particularly important in times of tensions in the international economy," he said at the opening of yesterday's discussions.

Fund officials say about a dozen developing countries owe arrears to the IMF totalling around $2.6bn. The funds are outstanding in spite of these borrowers' ability to repay the debts contracted under IMF programmes.

Mr Feldt said he strongly disagreed with the view gaining ground among some debtors as well as creditors that the IMF and the World Bank were comparable with other financial institutions. In fact, they always had to be treated as preferred creditors. Otherwise, their central roles could not be maintained.

Mr Feldt warned against temptations to extend loans to fragile developing countries without clear-cut economic conditions attached. There could be no compromise with the fundamental principle that economic adjustment programmes must lead to balance of payments viability of the borrower. Weak or unclear commitments were more of a hindrance than a help to the borrowing country.

The Minister also underlined the Fund's responsibility in surveillance of national economic policies.

AMERICAN NEWS

US poised for big reform of welfare legislation

By Stewart Fleming in Washington

LEADERS of Congress and the White House have agreed on far-reaching reform of the US welfare system. A new law would require those on welfare to work and state governments to provide them with education and training.

The bill requires that in return for federal funds, states enroll at least 7 per cent of eligible parents in some form of basic education and training, work experience or job, in 1990, with the figure rising to 20 per cent by 1995.

In addition all states will have to provide benefits to two-parent families on welfare for at least six months of the year, something only half the states do now. But one of the two parents will have to do community service for at least 16 hours a week. This requirement would apply to 40 per cent of the families in 1994 and 75 per cent by 1997. The provision was denounced as "slavefare" but included at the insistence of the White House which was ideologically committed to a workfare provision.

The bill also breaks new ground by insisting that states withhold child support payments from the wages of absentee fathers, that beneficiaries who leave welfare rolls to work should continue to qualify for federal medical and day care benefits for a full year. Lack of health insurance cover is a disincentive for many on welfare to take a job for it can mean that they end up worse off.

In addition former beneficiaries who quit their jobs and rejoin welfare rolls will be able to resume health and day care benefits, a provision conservatives had resisted arguing that the provision of such benefits provided a disincentive to stick with a job.

But the long-term impact of the reforms remain in doubt.

Ms Isabel Sawhill of the Urban Institute says the reform bill, which aims to move the able-bodied poor away from welfare dependency towards self-sufficency, is based on the right principles. It represents a 180 degree turn from the principle underlying the existing system, to provide the poor with a minimum income level.

But, Ms Sawhill says, the funds Congress is planning to provide under the new law, just over $3bn over five years, is "much too little to solve the problem". Mr Gary Burtless of the Brookings Institution adds that the impact of the reform will depend on the details – whether for example the states, responsible for administering the system at local level, will adopt the reforms enthusiastically or try to evade them and how tough the Federal Government will be in enforcing the new rules.

Welfare goes mostly to single women with children who draw benefits under a programme called Aid to Families with Dependent Children (AFDC). AFDC goes to about 3m families and, including children, about 10m individuals.

Welfare benefits vary enormously from state to state and the impact of the reform law will depend on how much moreindividual states are prepared to spend.

Few are optimistic on this score. States such as Governor Michael Dukakis's Massachusetts, which has been committed to its own comprehensive education and training programme, have found the task of reducing welfare rolls a formidable and expensive task.

In many areas voters are far less willing to see their taxes spent helping people who, many believe, should be helping themselves. The cuts in social programmes under the Reagan Administration have been motivated in part by conservative ideologues who have argued that the welfare system provides disincentives to work.

It is notable that the bill has not resulted from a concensus about how to tackle long term poverty and welfare dependency, but rather from an uneasy compromise between politicians of widely different views.

Without adequate funding and without a political consensus, it is easy to see why many are questioning how much impact the new legislation will have.

Garcia slams on the brakes

Fierce austerity threatens chaos in Peru, reports Robert Graham

THE LOOKS on the faces of people in shops and markets in Lima tell all: sheer incredulity. Brutally steep price rises have converted even the most basic purchase into an agonising sacrifice.

Since the government of President Alan Garcia introduced an austerity package on September 6, the cost of household essentials has almost tripled. One recent opinion poll showed 61 per cent could no longer meet their weekly outgoings. A kilo of rice, one of the staples in the Peruvian diet, has gone up from 25 intis to 60 intis.

"In these circumstances you would expect a rash of spontaneous protests; but people seem too stunned to react," says Mr Enrique Zilieri, editor of the weekly magazine, Caretas. Looting of stores has occurred both in Lima and in provincial towns, but the scale of violence has been less than might have been expected from the explosive potential in Peru today.

Peru is moving into perilously uncharted waters. President Garcia is trying to control an inflationary spiral and stem the tide of recession when the country's reserves are exhausted and when its relations with the international financial community are at an all time low. Arrears to the International Monetary Fund stand at $560m, the World Bank is owed $250m, while total unpaid foreign debts will reach $6bn at year-end, half the country's total foreign debt when President Garcia took office in July 1985.

The situation is compounded by the unstable and increasingly depressive personality of a president who has seen a vertiginous decline in his popularity and credibility. This month's economic package, the third adjustment this year, is the complete antithesis of everything that "Alan" has stood for. Until now he has presented himself as a radical nationalist championing the poor and the underprivileged. His popularity was based on conceding higher wages, increased subsidies and stimulating a domestic boom through non-payment of foreign debts. The new austerity heralds sharp recession with unemployment, cuts in subsidies and a reduction in purchasing power which will probably wipe out the gains in growth achieved under his presidency.

President Garcia cannot deflect blame. Lima is rife with rumours of his threats to resign and of a military intervention. Such rumours are symptomatic of President Garcia's isolation, and of the military's frustration at seeing the country slide towards poverty and ungovernability.

Alan Garcia: reversing everything he has stood for

In the wake of the austerity package, Mr Daniel Carbonetto, his closest and most influential advisor, resigned. Mr Carbonetto, an Argentine citizen who has been running the President's powerful kitchen cabinet, was forced out by a combination of pressure from within the ruling Apra party and from the military who regarded him as exercising undue influence.

The military and elements within Apra, headed by Mr Armando Villanueva, the Prime Minister since June, have asserted themselves though not necessarily in concert. Mr Villanueva, a veteran party politician with long-standing links to Mr Garcia's family, has begun to inject a note of pragmatism. The military meanwhile has warned Apra to heal sharp internal divisions which have been playing into the hands of the communist-backed opposition coalition, Izquierda Unida.

With Peru now facing serious recession (some suggest an 8-10 per cent fall in GDP within the next nine months) fears for social unrest are well-founded. Increased poverty, even without political instability, provides a fertile breeding ground for the fanatical maoist guerilla movement, Sendero Luminoso (Shining Path). The latter has been steadily extending its infuence from the remote Andean uplands across the country and to Lima, where over 40 per cent of the population now live. Despite successes by the security forces, Sendero has penetrated student organisations, the police and the shanty towns.

"We are looking over the edge into the abyss and no one likes what they see," commented a leading businessman. Precisely because the future of democracy is at stake and the economy is so debilitated, there is a sense among businessmen, politicians, and even the military, of rallying to avoid the worst. The military, according to insiders, recognise that overt intervention could create more problems than it purported to solve.

The basic aim behind the austerity package is sound – to reduce the fiscal deficit (over 10 per cent excluding debt arrears), boost exports and curb inflation, running in August at 23 per cent a month. However, the details look as though they have been worked out on the back of an envelope. So many have deserted the economic team that no matter how well intentioned Mr Abel Salinas, the new finance minister, might be, he lacks the experience and has little back-up.

Some of the worst distortions in the exchange rate that encouraged corruption and contraband have been removed. However, the official rate of 250 intis to the dollar is way out of line with the street rate of 380-400. On policy itself, after less than two weeks, the government backtracked over prices. It has lifted the 120-day price freeze, since this merely encouraged companies to jack up prices as much as possible in advance of the freeze.

Within the next month the impact of higher prices, more expensive credit, an inadequate exchange policy and falling demand will seriously hit company cash flows. Demand has already fallen over 40 per cent since the package was introduced. This might put the trade balance into marginal surplus but it is hard to see exports picking up unless business confidence improves and investment funds can be found from somewhere.

President Garcia alienated local business last year by his bungled handling of the nationalisation of the banks. Foreign investors for their part have the example of Royal Dutch Shell as a warning. Talks were broken off at the end of August on the $1.3bn development of a rich gas find. The Shell project, the largest foreign investment in prospect, is now in doubt.

Business confidence is only likely to be restored when Peru begins to mend its fences with the international financial community. Despite sending Mr Salinas to the IMF meeting in Berlin, President Garcia remains emotionally opposed to dealing with the Fund, which he has cast as the Great Satan. Circumstances may force him to change his mind.

Moscow urges UN role on the environment

By Our UN Correspondent

Mr Eduard Shevardnadze, the Soviet Foreign Minister, yesterday proposed a broader role for the United Nations in dealing with environmental issues.

Mr Shevardnadze also proposed that the Security Council should hold foreign ministers' meetings and offered Moscow as a site. The 15-nation council could also meet in the capitals of the other permanent members – Washington, Paris, London and Peking – he said in an address to the UN General Assembly, amplifying Mr Mikhail Gorbachev's strong support for the United Nations in an article in the Soviet press a year ago.

Mr Shevardnadze said the US and other countries should abolish some of their planned and continuing military programmes in order to release funds to establish an international regime of environmental security to meet the threat of global catastrophe.

Mr Shevardnadze said the stark reality of the threat was "a second front fast approaching and gaining an urgency equal to that of the nuclear-and-space threat."

For the first time, he said, humanity clearly realised that, in the absence of global control, peaceful constructive activity was turning into a "global aggression against the very foundations of life on earth."

Security based primarily on military means of defence was now totally obsolete and must be urgently revised since the biosphere recognised no division into blocs, alliances or systems. All shared the same climatic system and no one was in a position to build his own isolated and independent line of environmental defence.

"All the environmental disasters of the current year have placed in the forefront the task of pooling and co-ordinating efforts in developing a global strategy for the rational management of the environment," Mr Shevardnadze said in what was thought to be the first major Soviet statement at the UN on a question that is commanding increasing concern and has become an election issue in the US.

Mr Shevardnadze also charged that there had been "non-stop" violations of the Afghanistan accords since Soviet troops began to withdraw and he proposed that the permanent members meet under the auspices of Mr Javier Perez de Cuellar, the secretary general, to discuss compliance with the April agreements that were concluded through UN mediation.

● The foreign ministers of Iran and Iraq will meet in New York in direct face-to-face talks on Saturday in an effort to restart the stalled United Nations-mediated peace process, a spokesman for the UN said yesterday.

"On 1 October the secretary-general and his personal representative will meet jointly with the two foreign ministers to pursue the talks aimed at achieving the implementation of Resolution 598 in all its aspects," a spokesman for Mr Perez de Cuellar said.

Polls show Pinochet losing vote

By Barbara Durr in Santiago

OPINION polls in Chile show General Augusto Pinochet trailing badly in the run up to next month's plebiscite on whether to allow him eight more years of rule.

A national poll conducted between September 9 and 17 by the Centre of Contemporary Reality Studies, found 47 per cent intended to vote "No" against President Pinochet on October 5th, and only 19.6 would vote "Yes". Mr Carlos Huneeus of the Centre said the poll reflected a loss of fear by voters and a growing confidence in an opposition victory.

Important sectors of the Armed Forces are thought not to be unhappy with the trend and are resisting pressure to rig the vote. They consider the General a liability to order and stability in Chile given the strength of the opposition.

These sectors fear that the economic successes of the regime would be jeopardised by the social upheaval that a Pinochet victory could cause. They would prefer a smoother transition to a more democratic form of government with conservative civilians, which would preserve their power behind the scenes.

Opposition leaders say the Armed Forces will respect a "No" victory. They also assert that widespread fraud by the Government would be difficult because of their poll-watching and international scrutiny. But there remain fears that intimidation of voters, particularly in rural areas, could make some differences in the tally.

Panama accuses US over 'plot'

Panamanian opposition activists arrested last week were involved in a US-sponsored plan to overthrow Gen Manuel Antonio Noriega, Panama's Defence Forces said yesterday, AP reports from Panama City.

Colonel Guillermo Wong, head of the Defence Forces' G-2 intelligence unit, on Monday showed a news conference that security agents discovered a document in the course of the arrests which he claimed was by US officials and proved US involvement in efforts to oust Gen Noriega.

The US embassy dismissed the allegation and said it was designed "to divert attention from Panama's political problems."

Caught in crossfire

US military advisers fired on rebels in El Salvador two weeks ago when the Americans were caught in crossfire between rebels and Salvadorean government troops, a spokeswoman for the US Army said yesterday. Reuter reports from Washington.

It was the first time that American advisers, officially called trainers, are known to have fired on rebels in the eight years of civil war in the country.

Latin America debt

In a report yesterday, "Latin America move on debt", it was stated that ministers from Argentina, Brazil, Venezuela and Colombia met to discuss a plan to reduce the debts owed by countries in the region to each other. The report should have referred to ministers from Argentina, Brazil, Venezuela and Mexico.

Peru seeks better relations with creditors

By Stephen Fidler in West Berlin

MR Abel Salinas, the Peruvian Finance Minister, is scheduled to meet Mr Michel Camdessus, managing director of the International Monetary Fund, in West Berlin today as Peru embarks on a campaign to improve its ties with international financial institutions.

Relations between the IMF and Peru have been at a low ebb since Mr Alan Garcia took over as President in 1985. Peru owes more than $500m in arrears to the IMF, $374m to the World Bank and still more to commercial bank creditors.

This attempt to improve relations with creditors will be seen as reflecting the failure of a confrontational approach to the debt crisis. It follows the return of Brazil to the international fold earlier this year after a debt moratorium declared in February 1987.

Peru has made no payments to the IMF since 1986, when only a token payment was made. Apart from Mr Salinas's meetings with IMF and Bank officials, in which he is explaining the country's economic austerity package launched early this month, he is meeting commercial banks, which are led by Citibank as head of the country's bank advisory committee.

The task of Mr Salinas, only a month into his term of office, is indeed large. With Peru's repayment record, the international institutions cannot lend new funds and foreign commercial banks have withdrawn lines of credit. He must also convince Mr Garcia, whose anti-IMF rhetoric has been among the most vocal of all Latin American leaders, that he can achieve rapprochement with the international financial community without making a public climbdown.

Mr Camdessus this week announced the appointment of a special adviser, Mr Arjun Sengupta of India, to help him in negotiations on initiatives to dig debtors out of arrears. One potential solution is for groups of "friendly countries" to provide finance for countries in arrears.

Argentine industrialists in fight to keep import curbs

By Gary Mead in Buenos Aires

LEADERS of Argentine industry have condemned the Government's plan to remove import duties on more than 2,000 products, claiming they need protection from foreign competition.

One of the conditions of Argentina's recent agreement with the World Bank for a $1.2bn loan is the removal of import barriers. Since 1982 Argentina has operated a list (called Anexo II) of almost 4,000 goods requiring authorisation before they can be imported. Local industry has had sufficient lobbying power to exclude virtually any of the goods on the list.

In August, when the Government launched new economic measures to control inflation and stabilise the economy, it also promised to slash import barriers by halving the list of products from Anexo II and cutting duties on products remaining on the list. Originally that move was scheduled for the end of September but under pressure from Argentine manufacturers it has been postponed a month.

Two leading industrial organisations, the General Economic Confederation (CGE) and the General Industrial Confederation (CGI) have now called on President Raúl Alfonsín to grant exceptions, which in effect would continue to bar as yet unspecified industrial products from easily entering the country. Mr Juan Ciminari, Foreign Trade and Industry Secretary, said their suggestions would be noted.

Alfonsin comes under attack from Peronist

By Gary Mead

MR CARLOS MENEM, Peronist Party presidential candidate, has criticised President Raúl Alfonsín for having publicly condemned Peronism as "corporatist" and a threat to Argentina's democracy.

Mr Menem said he found it "painful" that the "President of all the Argentines has changed into the campaign chief for one of the parties" involved in next May's presidential election.

Mr Menem, governor of La Rioja province, accused the Government of having planned a riot in Buenos Aires on September 9 and suggested that Argentine embassies abroad had received doctored video tapes of the incidents, as part of an anti-Peronist smear campaign.

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WORLD TRADE NEWS

Italy to back Venezuela on aluminium project

By John Wyles in Rome

ITALIMPIANTI, Italy's state-owned industrial plant builder, is to play a key role as both investor and lead constructor in an $870m project to create a primary aluminium plant in Venezuela.

The project, announced yesterday, is likely to be followed by other collaborations between the Italian and Venezuelan public sectors as part of a determined Italian search for new commercial links with Latin America. The financing arrangements include the first ever debt-equity swap to be organised by an Italian state-company, although similar deals are being examined with Argentina.

The plant is to be built within three and a half years at Ciudad Guayana in an area in Bolivar state earmarked for major industrial development.

Construction responsibilities and ownership will belong to Aluyana, a joint venture in which 51 per cent of capital will be owned by Venezuelan public and private interests and 49 per cent by Italimpianti, a subsidiary of the IRI holding group, and Technint, the Italian multinational construction company. Mr Winston Bereciartu, president of Aluyana, said yesterday that current shareholding balances would probably change with the arrival of additional Venezuelan and foreign investors.

The first phase, to be completed by 1992, aims at 195,000 tonnes of primary aluminium producing capacity which will be fed by locally produced bauxite. Initially 60 per cent of the output will be primary ingots, 20 per cent as rolling slabs and 20 per cent as extrusion billets.

Ultimately, this should be doubled as part of a national Venezuelan plan to turn out 2m tonnes a year of primary aluminium by the year 2000. Eighty per cent of production from the plant will be aimed at European markets, with Italimpianti's subsidiary, Sirco, taking a leading marketing role.

Mr Raffaele Picella, the Italimpianti president, said yesterday that financing arrangements were "complicated" but that they broadly divided into one-third of the costs being met by risk capital by banks and private and public investors, one-third by export and commercial credits and one-third by debt-equity swaps.

Japan in final bid to sell trains to Spain

By Peter Bruce in Madrid

JAPAN yesterday launched a final, urgent attempt to persuade the Spanish Government to accept its cut price offer for up to 30 high speed Bullet trains in the face of intense French and West German competition.

Madrid is due to decide next month on two prestige contracts, each worth about Pta 35bn ($280m), to build high speed trains and some 75 high-powered locomotives to improve rail services.

The race to supply the high speed trains is by far the most intense of the two with a consortium led by Alsthom Atlantique of France apparently emerging as a favourite.

Renfe, the Spanish state railway, is known to favour the French bid. There is also political pressure on the Government to keep the contract European.

But Mr Ryuzo Nakamoto, president of Mitsubishi Espana, appealed yesterday to the Government to award the contract on technical grounds.

BRITAIN TO SUPPLY WEAPONS IN FIVE-YEAR AGREEMENT

UK, Malaysia sign £1bn arms deal

By David White, Defence Correspondent, and Robin Pauley, Asia Editor

BRITAIN is to supply Malaysia with fighter aircraft, air defence systems and other military equipment worth about £1bn ($1.6bn) under an agreement signed yesterday by Mrs Margaret Thatcher, Britain's Prime Minister and Dr Mahathir Mohamad, Malaysia's Prime Minister.

Senior Malaysian sources said delivery would stretch over five years and might be followed by further purchases. An official statement emphasised the agreement aimed to promote long-term co-operation and included important transfers of technology to Malaysian industry.

It is understood that 12 Tornado ground attack aircraft, surveillance radars, air-defence missiles, howitzers, light guns and a refurbished submarine, as well as key training provisions for Malaysian military personnel will be provided.

The agreement marks an improvement in Anglo-Malay relations at a time when Dr Mahathir is under strong domestic and international pressure over increasingly authoritarian policies.

The personal rapport between Mrs Thatcher and Dr Mahathir has improved steadily since the low point in October 1981 when the Malaysian Prime Minister urged a "Buy British Last" policy.

His attitude was derived partly because of the generally "patronising and insensitive" attitude of the British towards Malaysia, but mainly in retaliation for a sharp increase in fees for overseas students studying in Britain. Mrs Thatcher backed down and is now reaping the benefit.

Dr Mahathir has been trying to secure increased flights between London and Kuala Lumpur for Malaysian Airline System and at one point it was feared that British intransigence could jeopardise the arms deal.

No progress has been made on the issue but Dr Mahathir recently made clear that although he would continue to press the issue it was not important enough to deprive his country of the weapons systems it wanted and needed.

The Malaysian officials said payment would be made partly in oil, natural gas and other products.

Detailed contracts under the government-to-government agreement, under negotiation for many months, have still to be signed.

The deal means the UK has effectively ousted the US as a main supplier to Malaysia's air force. The country's fighter squadrons are currently US-equipped, with second-hand A-4 Skyhawks and with F-5 Tigers. These are due to be upgraded by British companies under the new deal.

The US recently gave clearance for General Dynamics to negotiate the sale of F-16 fighters to Malaysia, but the Malaysian officials said no further contracts were foreseen for the same kinds of weapons. The deal also represents a blow for French commercial aspirations.

The direct involvement of Mrs Thatcher in yesterday's memorandum of understanding – a contrast with earlier agreements such as the one with Saudi Arabia, signed at defence minister level – is understood to have been at Dr Mahathir's insistence.

The Tornado purchase is seen as a prestige booster for Malaysia rather than as a counter to any perceived threat from other countries in the region. The officials said they hoped the deal would lead to increased British investment.

Malaysia is the first client for the Tornado excepting the three countries involved in making the aircraft – the UK, West Germany and Italy – and two Middle East states. The high-performance fighter was at the centre of the recent £10bn UK-Saudi Arabian defence agreement and a further eight have since been sold to Jordan.

British Aerospace, the UK Tornado partner, will also supply the Malaysians with Rapier surface-to-air missiles, and Short Brothers of Belfast is to provide portable Javelin missiles. Marconi Radar Systems, part of the GEC group, will supply two Martello three-dimensional air-defence radars, following a similar deal with Oman.

The deal is also expected to include about 30 FH-70 155mm towed howitzers made by Vickers Shipbuilding and Engineering under a UK-West German-Italian joint programme.

Britain backs Nissan bid to export UK-built cars to France

By Kevin Done, Motor Industry Correspondent, in Paris.

THE UK GOVERNMENT has agreed to back Nissan Motor of Japan in its fight to export cars from its UK assembly plant to France.

Nissan had planned to make France and Italy its first targets in continental Europe for sales from its Sunderland assembly plant in north-east England. But the French Government is seeking to block the cars on the grounds that they have less than 80 per cent local European Community content.

Mr Yutaka Kume, Nissan Motor president, said last night at the Paris Motor Show that the company had called on the UK Government to hold talks with France which could clear the way for it to export from the UK.

Lord Young, UK Secretary of State for Trade and Industry, is due to be the chief guest at celebrations planned by Nissan for Friday to mark the first production at Sunderland of lefthand drive cars for export to continental Europe.

Mr Yoshikazu Kawana, Nissan board member and group director for Nissan sales in Europe, said last night, "We are leaving this issue to the British Government. They have held talks but we do not know what the French response is.

"We were told that if we achieved 60 per cent local content then the cars would be British-made. Then it was supposed to be OK."

Nissan's conflict with Paris and the involvement of the British Government comes amid growing concern among European car makers about the future pattern of Japanese car sales in West Europe with the planned creation of a single market from 1993.

France has restricted direct Japanese imports to only 3 per cent of the French car market, but Nissan maintains that this quota cannot apply to its UK-built cars.

Under its original deal with the British Government it was agreed that the cars would be considered as British production when they reached 60 per cent local content, a level achieved early this year.

Mr Kume said last night that "the local content ratio at our UK plant is over 70 per cent and we are intent on raising it still further."

The French Government is seeking to block the cars on the grounds that they do not have 80 per cent local content. Nissan hopes to reach this level by 1990.

Nissan officials maintained last night that the French Government had no legal foundation for blocking the cars, but accepted that Paris might use bureaucratic means to keep the UK-built products out of the French market.

Present European Community rules only state that to qualify as EC product, "the last substantial manufacturing operation" must be performed in the EC.

Nissan is planning to make its first shipments to continental Europe next month with around 10,000 units earmarked for export this year. It is understood that Nissan was planning to export 5-7,000 cars a year to France from the UK.

The company is also braced for opposition from the Italian Government to its plans to export around 3,000 UK-built cars to Italy,

For the moment it has revised its UK export plans and is targeting markets in West Germany, Switzerland, the Netherlands, Belgium and Scandinavia.

CoCom initiative on China

By Ian Davidson in Paris

THE gradual liberalisation of Western trade with China is taking a routine step forward this week at a meeting of the special China Group of CoCom, the Co-ordinating Committee for Multilateral Export Controls which deals with trade with Communist countries.

But Western sources expect that the process will be given substantially more political impetus next month at a meeting of senior officials in the executive committee of CoCom, which includes Japan and all Nato countries except Iceland.

The China Group was set up three years ago to negotiate a relative relaxation of the restrictions on Western exports to China, which was seen as a strategically less threatening power than the Soviet Union, and which had declared that it would not re-export advanced technology to the Soviet Union.

Military equipment remains restricted for export but the control procedures for sales of civilian equipment are progressively being liberalised, according to the requests of individual member states. Where a category of equipment is liberalised for sale to China, it may remain subject to national controls but be freed from the hurdle of obligatory consultation with the rest of CoCom, or it may even be freed from any licensing procedure altogether.

At this week's meeting the members of the China Group are reported to be discussing, on a case-by-case basis, the liberalisation of telecommunications equipment, switching equipment, telephones and chemicals. A meeting in July is reported to have eased restrictions on computers.

Last year there was a hiatus in the process of liberalisation because of US irritation with China over its support for Iran in the Gulf war through the sale of Silkworm missiles. The US has eased its attitude to trade with China since the ceasefire in the Gulf and a visit to Peking by Mr Frank Carlucci, US Defence Secretary, largely in response to the urging of the countries of western Europe which are keen for a faster rate of liberalisation.

IRAN and China have agreed to boost total trade exchanges by $100m next year to $600m, according to a report yesterday by the official Islamic Republic News Agency, agencies report.

China is also reported to be ready to co-operate in Iran's post-war reconstruction.

IRNA confirmed Chinese reports that the nations had agreed to establish formal diplomatic missions. A 12-man Iranian delegation has recently returned from talks in Peking. IRNA said trade talks focused on building two power stations in Iran's Kerman and Gilan provinces.

Moscow awards N-safety deal to W German group

By David Goodhart in Bonn

KWU, West German nuclear power plant building subsidiary of Siemens, has won an important order from the Soviet Union to provide a safety report on its latest batch of 1,000 megawatt pressurised water reactors.

It is believed to be the first time a Western company has won an order from the Soviet Ministry of Atomic Energy.

Although the order is not commercially significant, and is in any case shared with the German nuclear safety body GRS, the deal is considered a major breakthrough by Siemens' executives.

KWU has been talking to the Soviet Union for several years about various deals and having finally clinched an order, the company is now optimistic it will build up a healthy flow of business, including the sale of hardware.

Ericsson wins Hungarian order

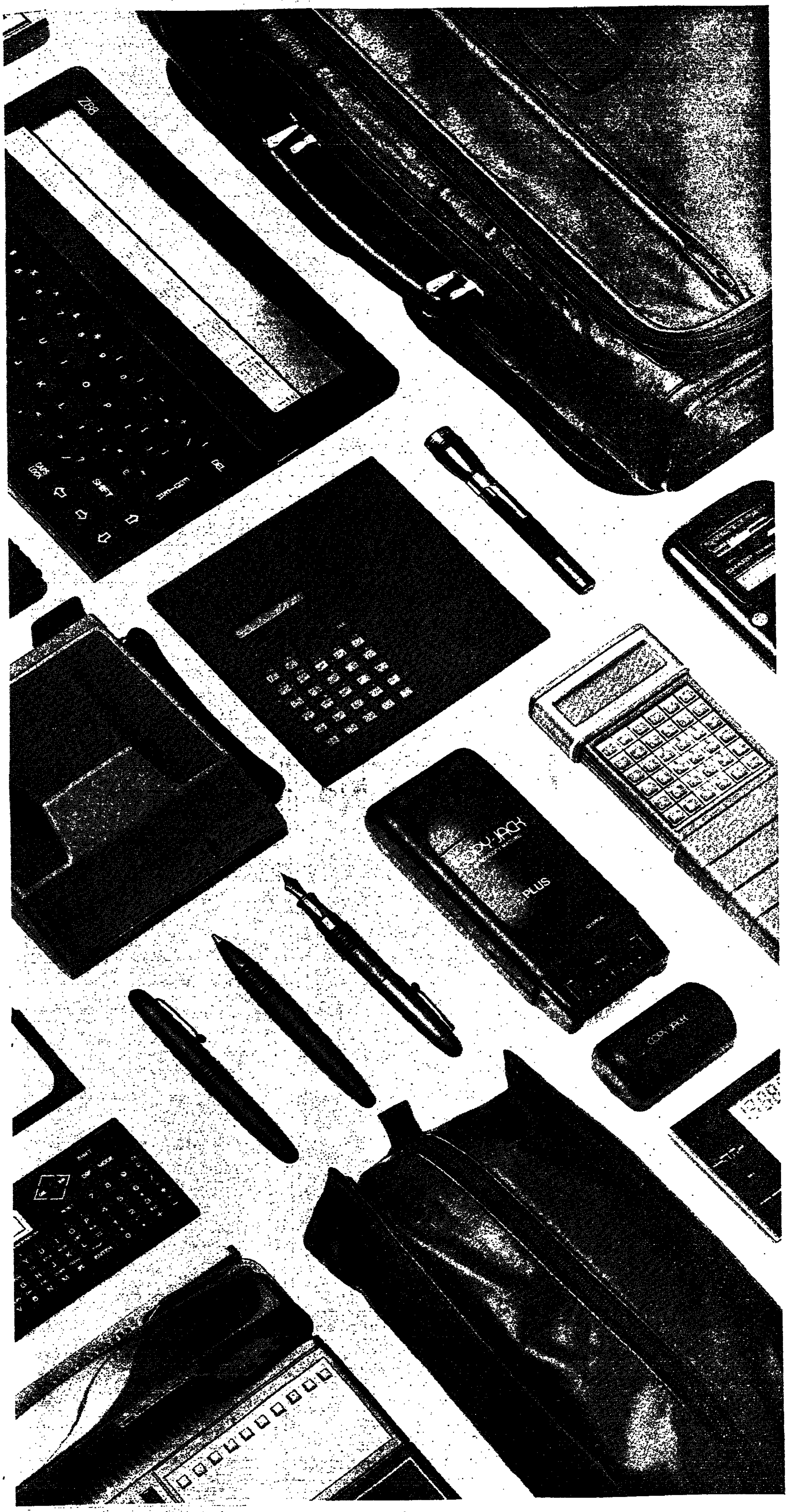
By Sara Webb in Stockholm

ERICSSON, the Swedish telecommunications group, has won a breakthrough order from the Hungarian post and telecommunications network for its digital telephone exchange.

It is the first time Ericsson has supplied an Eastern bloc country with its high-tech AXE system.

The order, which is worth SKr47m ($7.2m), is for an international telephone exchange for Budapest.

Ericsson hopes to win further orders from Hungary for the digital AXE.



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UK NEWS

Chancellor hints that Treasury is satisfied with present level of interest rates

Financial markets react positively to trade deficit of £1.3bn

By Simon Holberton in London and **Philip Stephens** in Berlin

BRITAIN recorded a £1.3bn trade deficit in August, the second worst on record, but an improvement on July's record of £2.2bn, according to official figures yesterday.

UK financial markets were relieved that the deficit was less than the £1.4bn expected and reacted positively.

The pound strengthened, share prices rose, and interest rates in the professional short- and long-term money markets fell, despite analysts' comments that the figures did not portend an improvement in *Britain's trade*.

Mr Nigel Lawson, the Chancellor of the Exchequer, delivered a low-key response. But he hinted that, for the time being at least, the Treasury was content with the present level of interest rates.

In a brief statement released in Berlin, where he is attending the annual meeting of the International Monetary Fund, he said that it was wrong to put too much weight on one month's figures.

The Chancellor yesterday restated the official line on the "cause" of Britain's deteriorating trade performance. He said that domestic demand, consisting mainly of personal consumption and investment, was growing too fast and sucking in a high level of imports.

He believes that Britain has a problem with imports rather than with its exports. According to this view, the trade deficit is self-correcting: higher interest rates will eventually arrest the growth in consumption, which in turn will lead to a fall in imports.

The Department of Trade and Industry's figures suggest that Britain will record a current account deficit for the year of around £14bn, or more than 3 per cent of gross national product.

The DTI said that Britain's balance of visible trade improved from a deficit of £2.65bn in July to a deficit of £1.8bn in August. The reason for the improvement in the visible deficit was because imports fell from their very high level in July.

The fall of around £900m, which mostly reversed the surge in imports seen in July, was spread across all classes of goods, including cars, capital goods, consumer and intermediate goods.

Exports showed no growth on the month in value terms, and actually fell in volume terms.

There was a small recovery in trade and oil; the oil surplus amounted to £140m against £65m in July when the effects of the disaster on the Piper Alpha North Sea oil platform were most forcefully felt.

Exports in the three months to August, compared with a year earlier, were 5½ per cent higher in volume terms. Against the level prevailing in the last quarter of 1987, however, exports were only 3 per cent up, suggesting that the rate of growth of shipments has slowed.

Imports in the three months to August, by contrast, were 15 per cent higher than a year earlier and 11½ per cent higher than the fourth quarter of 1987.

Mr Lawson said: "The clear picture which emerges from the trade figures over the last few months is one where exports are continuing to perform well, but imports have risen sharply as a result of the strength of domestic demand," he said.

Referring to successive rises in base interest rates in recent months from 7½ to 12 per cent the Chancellor added: "We took the appropriate action in response to this during the summer by tightening monetary conditions. The effects of this will inevitably take some time to come through".

A senior Treasury spokesman in Berlin said that the figures confirmed that the strong growth in demand has sucked in imports during the last few months, but pointed out that exports remained strong.

Even though imports fell back in August relative to July, last month's deficit was still the second-largest on record.

The spokesman said that the deficit in August had not added any new evidence to change the Government's view of developments in the economy.

The figures did not change the view of most independent economists either. The fall in imports was not taken as a sign of a moderation in the growth in domestic demand, but as a reversion to the high levels of imports seen in the figures since April, when imports first rose above £8bn.

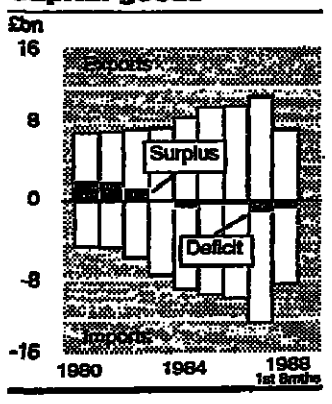
Mr Gavyn Davies, chief UK economist at Goldman Sachs, the US securities house, said: "The underlying trend is worsening, the big question is how long it continues to do so."

Financial markets thought otherwise. The FT-SE 100 Share Index closed 15.3 up at 1,808 and the FT Ordinary Share Index closed 12.6 up at 1,459.1. Turnover, however, was thin. Prices on long-dated gilts rose by around ¼ a point.

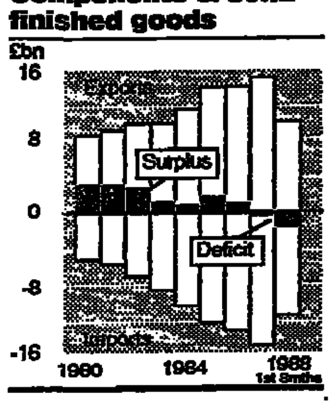
The pound was also firmer. It closed at DM3.1550 against DM3.1375 on Monday and at $1.6785 compared with $1.6670. The Bank of England's trade-weighted sterling index closed 0.4 up at 75.6.

Ivor Owen adds: Opposition Labour party leaders renewed their attack on Mr Lawson's handling of the economy with Mr John Smith, the party's spokesman on economic affairs, contending that the £1.3bn current account deficit in August reflected a "damaging trend" which could lead to a £12bn deficit for the year.

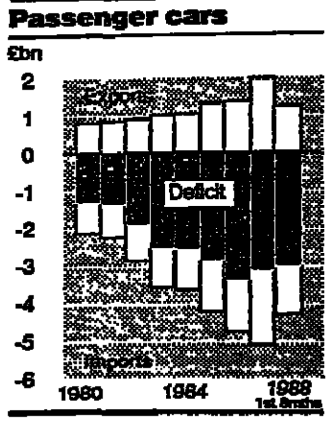
Capital goods



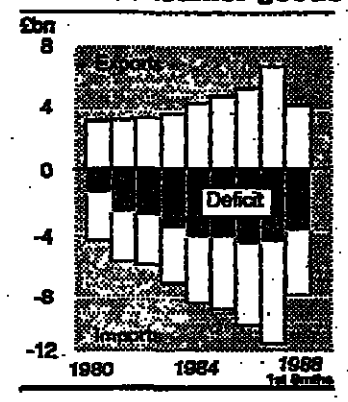
Components & semi finished goods



Passenger cars



Other consumer goods



Lawson tempers official relief with longer view

Simon Holberton assesses the figures

THE TREASURY and the Bank of England yesterday heaved a joint sigh of relief over the UK's August trade figures.

The published figures, with a current account deficit of £1.3bn, are better than the consensus estimate of economic analysts, who had expected a deficit of about £1.4bn, and are an apparently vast improvement on July's current account deficit of £2.2bn.

The vital factor for the Government is that the pound held its value in the foreign exchange markets. This, for the time being at least, has forestalled the need for another rise in interest rates to defend the currency.

Financial markets assessed the figures by letting short-term interest rates in the money market fall and the markets are now not even hinting at a possible further rise in official and bank interest rates.

The figures cannot, however, be considered good. They are simply better than expected and may indicate a reversion to the past trend, which was far from encouraging.

In Berlin, Mr Nigel Lawson, the Chancellor of the Exchequer, cautioned those who might be given to optimism about the figures. He said in a statement that not too much weight should be placed on one month's figures; it would take time for higher interest rates to have the desired effect of slowing domestic consumption.

Over the past three months *the UK has amassed a current* account deficit of £4.5bn, which equates to £18bn at an annual rate. Assuming July's deficit was erratic by £1bn, the annual deficit calculated on the past three months would still come to £14bn.

That means that the UK's current account deficit will equal 3 per cent of gross domestic product – a level which few countries of the UK's size have been able to finance for long.

Domestic producers may also have been diverting potential exports to home markets to *take advantage of strong UK* demand. When demand in the economy slows, demand for imports could fall and the growth in exports rise.

This could, on the most optimistic view, lead to rapid improvement of the trade deficit.

However, some City of London analysts believe that the widening current account deficit reflects British industry's failure to compete as well as excess domestic demand.

The UK has moved from a surplus in trade in manufactured goods of £5.5bn in 1980 to a deficit of £7.5bn at the end of last year. In the first 18 months of this year the deficit in trade in manufactured products was £3.2bn.

Instead of the UK maintaining its share of trade in manufacturing – as the Treasury forecast it would at the time of the March budget – the Ernst & Whinney ITEM Club, which uses the Treasury's model of the UK and world economies, claims that Britain's share has plunged over the past year. This loss of competitiveness is due to sterling's appreciation, ITEM says.

The Treasury says, however, that there has been a solid response on the supply side of the UK economy in recent years. It says that manufacturing output is up, productivity is high and that exports by manufacturers have been rising strongly. The Treasury says that if the UK had a problem with competitiveness, then exports would be affected and *to date* they have *not* been. The Bank of England also points out that there has been little material change in the competitiveness of UK industry.

After allowing for exchange rate movements, UK relative unit labour costs were 8 per cent higher in the year to the first quarter and 8 per cent higher in the year to the second quarter.

Between the first and second quarters of this year competitiveness weakened by about 3 per cent.

However, the scale of the trade problem is huge and the slowdown in domestic demand which is needed to correct it is similarly large.

Mr Gavyn Davies, chief UK economist with Goldman Sachs, pointed out recently that demand has been growing by about 7 per cent in the past year. *Even if* demand growth slowed immediately to 3 per cent a year, the current account deficit would stay indefinitely at 3 to 4 per cent of GNP. A single year of demand growth of minus 1 per cent would get the current account back into balance, but it would take four years to correct the current account if demand rose 2 per cent a year.

CURRENT ACCOUNT (£bn)

	Current Balance	Visible Trade Balance	Visible Trade Exports	Visible Trade Imports	Invisibles Balance
1985	+3.3	-2.3	77.9	80.3	+7.6
1986	-0.2	-8.7	72.7	81.4	+8.5
1987	-2.5	-10.2	79.8	89.6	+7.6
1988					
Qtr 1	-2.9	-4.0	19.0	22.9	+1.1
Qtr 2	-2.9	-4.4	20.2	24.7	+1.5
June	-1.0	-1.7	6.5	8.2	+0.5
July	-2.2	-2.7	6.8	9.4	+0.5
Aug	-1.3	-1.8	6.7	8.5	+0.5

Figures for Qtr 1 1988 and earlier are revised estimates
Figures may not add up due to rounding

Source: CSO and DTI

Four-wheel drive vehicle makers face safety tests

By John Griffiths

UK IMPORTERS and manufacturers of leisure four-wheel-drive vehicles last night faced the possibility of a sales and safety crisis for their products.

The Department of Transport made clear yesterday that it has full powers to ban both the sale of any new vehicles, and the use of any similar models already on the UK's roads, if it considers that they are unsafe.

The Department set out its position having temporarily halted safety tests on vehicles after one of them rolled over.

In the meantime, it is advising all potential buyers of such vehicles to suspend purchases until tests are completed within a month.

Terrorists had 'no chance' to detonate bomb

AN ELECTRONICS expert told the IRA inquest in Gibraltar yesterday that the three terrorists killed by British soldiers had no chance of detonating a bomb from the spot where they were shot.

Dr Michael Scott also accused two key witnesses for the Government of giving misleading and nonsensical information.

The soldiers, belonging to the special operations unit known as the SAS, have claimed that they killed the terrorists because they believed they were about to use a button job radio control switch to trigger an enormous bomb.

Dr Scott was giving evidence on the 16th day of the hearing into the deaths of Mairead Farrell, Danny McCann and Sean Savage.

Earlier he went around Gibraltar testing button job transmitting and receiving equipment from various parts of the Rock.

Dr Scott was called to the witness *box to talk about* evidence given by an Army explosives expert who appeared earlier.

The doctor said he had degrees in electronic engineer*ing and was a licensed radio* ham. He had also familiarised himself with technical aspects of IRA bomb making.

In Gibraltar he tested the radio control device which has *been exhibited in court to illus*trate the kind of equipment available.

He said each side in Ireland was involved in a race to produce and counter new technology – a survival of the fittest, he said.

One favourite method was a part-way device which *involved a parking meter style* clock ticking round to make an electrical contact before any radio signal could be received.

That, he agreed, was an absolutely fail-safe way of stopping a signal getting through before the man with the button was ready.

Modern equipment used a sophisticated high-frequency signal but the further away from the receiver the less likely it was to work.

Earlier in the inquest the court heard evidence from military explosives expert Mr Alan Feraday that the device could have been triggered from anywhere in *Gibraltar* or *Spain*.

The jury also heard from Soldier G, an explosives expert attached to the SAS, that it was the aerial on the suspect car which led him to believe it *contained a bomb*.

Dr Scott said in answer to questions: "I think Mr Feraday gives some misleading information concerning radio-wave propagation."

Soldier G, he said, had talked about the power of the aerial being matched to the transmitter. "This really is a kind of nonsense phrase," he said.

"His reply would make me *suspicious of the state of* his knowledge about radio aerials."

Ulster police amass haul of IRA arms

HARDLY A month passes in Northern Ireland without the security forces uncovering a significant cache of arms and explosives, our Belfast Correspondent writes.

Yesterday's discovery of a terrorist arsenal, "professionally hidden" in the countryside of Co Tyrone, western Ulster, was just the latest in a cata*logue of finds made throughout* the province this year.

The Royal Ulster Constabulary, the province's police force, said that a number of people were arrested for ques*tioning about the cache*, which was discovered during a search yesterday and today near Strabane, near the Irish border.

The haul included more than 1,000lb (454kg) of home-made explosives; an RPG7 rocket launcher; two RPG7 warheads; two AKM assault rifles; a shotgun; a large quantity of ammunition and magazines, detonators, cortex and propellant charges.

While the discoveries undoubtedly blunt the terrorists' capacity to carry out their operations, the scale and variety of weapons found supports the view that both Republican and Loyalist paramilitaries have succeeded in smugging significant quantities of arms into Ulster.

The fire power of the haul found yesterday could easily have sustained a small war in the coming months.

Statistics produced by the RUC yesterday clearly illustrate the improved fortunes of the security forces in tracking down cargoes of arms which find their way to the province. Up to last weekend, Ulster police had found 360 firearms this year, compared to 206 in 1987, 174 in 1986, and 175 in 1985. A total of 76,973 rounds of ammuntion have been found so far this year, almost four times the quanitty recovered last year.

Success in uncovering rockets and mortar bombs, responsible for some of Ulster's most bloody outrages, has also been impressive. Up to last weekend, 44 rocket warheads or mortar bombs had been found, compared to 16 last year, 11 in 1986 and five in 1985.

Despite the improvement, Sir John Hermon, RUC chief constable, has made it clear there is no room for complacency. He has given a warning that the IRA is intent on initiating a "horrific end" to 1988. Huge quanitites of Semtex, the high-powered Czech explosive, have become a feature increasingly of IRA bombing missions in the province.

This has added to fears that Libyan shipments of weapons *and explosives were* successfully landed in Ireland before the freighter Eksund was captured off the French coast last October. The 150-tonne arms haul found on board included *20 Sam-7 surface-to-air missiles*.

The cargoes appear to have been divided and concealed all over Ireland, making the job of the RUC and Garda, the Irish *Republic's police force*, all the more difficult.

Recent finds also suggest that the threat posed by Loyalist paramilitary organisations is increasing. Earlier this *month, police found dozens of* home made machine-guns at a Loyalist arms factory in the countryside of Co Down, in the province's south east.

Discoveries have not been *confined to Ulster. The Garda* has recovered more arms and explosives in the past six months than in the previous seven years put together.

Intelligence is vital in the *battle to track down the sup*plies. Guns and explosives are often concealed in professionally constructed hides and buried deep in the countryside.

The cargo recovered near Strabane yesterday was concealed in two 40-gallon drums which had been welded together and dug into carefully built bunkers.

Mr Joe McKeever, RUC superintendant, has no doubt that the community could do more to help cut off the flow of guns and explosives to the terrorists. "It is obvious that people within the community are aware of the presence of the materials," he said.

"Where human life is being taken so frequently it is long past time that those who are aware of such activities acted more responsibly."

While senior police officers were delighted with yesterday's discovery, it confirmed their view that the IRA was intent on intensifying its campaign.

Party President calls for unity at Blackpool conference

SLD 'will elbow Labour aside'

By Tom Lynch

MR Ian Wrigglesworth, president of the Social and Liberal Democrats, yesterday set out the ground for his party's attack on the Labour party, giving strong support to Mr Paddy Ashdown's strategy of replacing Labour as the main opposition to the Conservatives.

Mr Wrigglesworth, *a former* Labour MP, assured delegates in his presidential address to the Blackpool party conference that his former party was vulnerable even in some of its perceived strongholds, such as the north-east of England.

"The Labour Party's time has passed. It is built on foundations of sand and the sand is rapidly running out.

"It is a shell of its former self. We are right to set about elbowing it aside, and in a matter of years I think we can do so."

Mr Wrigglesworth also delivered a strong attack on Dr *David Owen, the leader of the* Social Democratic Party, which resisted merger with the former Liberal party after the last election. The SLD had inherited liberalism and social *democracy, he said.* "The Owenites have no claim whatsoever to the mantle of social democracy in this country."

He accused Dr Owen's supporters of "blatant contempt" for the views of the majority of SDP members who voted for a *merger* and added: "The policies the Owenites are now adopting bear very little resemblance to those outlined in the Limehouse Declaration (the SDP's 1981 founding document named after the area of east London in which Dr Owen lives) and the 12 Social Democratic principles upon which the party was launched."

His remarks came on the eve of a well-publicised fringe meeting at which Mr John *Cartwright, the Social* Democratic Party president, is expected to put the his party's case for renewed co-operation between the two parties.

Mr Wrigglesworth was given a standing ovation at the end of his speech, in which he issued a call for unity just 24 hours after the bruising debate on whether the party should be referred to as the Democrats or Liberal Democrats.

SLD leader Paddy Ashdown (left) joins hands yesterday with Ian Wrigglesworth, who called for a display of unity and purpose

The party decided after an impassioned debate on Monday to adopt the popular title of Democrats, but allowed that MPs should be free to use the name they preferred locally. However, 16 of the party's 19 MPs had opposed the move amid arguments that the removal of the word Liberal from the name threatened to eclipse the former party's traditions.

"One name or six names, if we are still at 8 per cent in the polls by the time the general election comes I doubt our ability to hang on to even the seats we hold now, never mind making a massive breakthrough," said the party president.

"It is absolutely vital that through tolerance and under*standing* we hold our ranks together and display our unity of purpose."

● Mr Bernard Ponsonby, the 24-year-old press officer for the Democrats in Scotland, has been selected to fight the Glasgow Govan by-election for his party, writes Michael Cassell.

The by-election follows the appointment of Mr Bruce Millan, the sitting Labour MP, as a European Commissioner. A date has still to be set.

Labour will be defending a majority of 19,509 from the 1987 election, in which the SDP/Alliance candidate came second with 12 per cent of the vote.

Servants, hippies 'set for comeback by the year 2000'

By John Gapper, Labour Staff

WHAT does the Dual Income, *No Kids (dinkie) family* give itself in the 1990s when it starts to acquire the kids as well as the wealth? A servant.

The mass return of the domestic servant by the year 2000 is among the predictions made by a group of young management consultants and personnel managers who met earlier this year to map out their vision of the future.

Their views are contained in a report *commissioned* to mark the 25th anniversary of Hay Management Consultants.

Predicting, in passing, the demise of the International Monetary Fund, the World Bank *and* the *Organisation for* Economic Co-operation and Development, the group was most interested in the effects of demographic changes.

It decided that the sharp fall in the number of young people in the workforce would lead to the emergence of the "the million dollar mother" surrounded by nannies, child minders, domestic helps and instant catering contractors.

These working mothers would be able to call "high quality, high cost domestics providing status and sophistication to the purchaser." Another type of "servant" would be "low cost, low quality domestics."

The group – comprising seven employees of Hay Management Consultants and seven managers from British Aerospace, Eurotunnel, Saatchi and Saatchi, and Tesco among others – also predicted the return of the hippie.

It argued that significant numbers of employees might opt out of work before reaching normal retirement age "to do their own *thing* and maybe shape our individual futures as consciously as some dreamed of doing in their teenage hippie years."

The group earned itself a mild *ticking* off from its chairman, Professor Charles Handy of the London Business School, for its attitude to the less privileged in the workforce and the unemployed.

"This group, naturally enough, had a middle-class, professional view of the world. There was no one to argue passionately for the plight of those who would be left behind or left out in the world they envisage," he wrote.

Headlines 2000: The World As We See It. By the Cookham Group. Hay Management Consultants Ltd, 52 Grosvenor Gardens, London SW1W OAU.

UK NEWS

Britain proposes European air traffic flow centre

By Lynton McLain

THE GOVERNMENT has proposed the setting up of an air traffic management centre in Europe to help avoid congestion in the skies.

The centre would be a purpose built computer unit operated by Eurocontrol and would co-ordinate and streamline the operation of flow control in Europe. At present, flow management is run by separate units throughout Europe. Mr Channon said yesterday that this had led to communication problems.

Eurocontrol is the agency for the co-ordination of safety in air navigation in Europe, but it has not been effective in avoiding the problems of air traffic congestion.

This led Mr Paul Channon, the transport secretary, to write to the other European transport ministers calling for their agreement to create a European central air traffic flow management centre.

Mr Channon has also written to the transport ministers in Italy and Spain urging them to join Eurocontrol. "Spain has some of the most acute air traffic control problems in the world", Mr Channon said.

He did not expect the management centre to be in place to ease congestion by next summer, but said it was "extremely important for us to try to get agreement on the centre."

Airliner movements have been subjected to flow management for the past two summers. Air traffic controllers use flow management to lessen congestion in the skies by keeping aircraft on the ground until they have identified a safe flight path.

Mr Channon will discuss his proposal with airlines and air traffic control authorities at a seminar on air traffic control in London on November 7.

He said there was a good chance that agreement with the other European transport ministers could be obtained at a meeting of ministers on November 22. "We do not see any serious political objections, yet the realities in Europe are that we cannot rush into a supranatural air traffic control system." There were problems of sovereignty and national defence and each nation had to retain political control

BAe output of Airbus wings set to treble

By Lynton McLain

BRITISH Aerospace is to more than treble its production of wings for the Airbus Industrie A320 to meet soaring demand for the twin engine airliner.

The BAe factory at Filton, south west England makes 36 sets of A320 wings a year. Mr Bob McKinlay, the managing director of British Aerospace Civil Aircraft division said at Filton yesterday that the company planned to increase production of the wings to between 110 sets and 130 sets a year.

The immediate plans call for production to be stepped up to 62 sets of wings next year and 88 sets of wings by 1990.

The increased production rate for the wings for the A320 comes as BAe is moving almost all the company's aircraft production workers from two-shift to three-shift working.

At the same time, cash flow problems are emerging for BAe as a result of the success of the Airbus programme. The capital employed to meet the growing Airbus order book is rising, but cash is not received for the work until the completed aircraft are delivered.

Mr McKinlay said: "Every one of these leaps in our rate of building A320 wings has occurred for one simple reason – we have an aircraft design which the airlines are going for in a big way."

Twenty four airlines have chosen the aircraft, which went into service in March. Airbus Industrie has orders and options for 618 A320 aircraft.

In the six months to June 30, BAe cut the trading loss on its civil aircraft business to £22m from £49m in the corresponding period last year.

Top executives complain of anti-business bias in schools

Competitiveness 'under threat'

By David Thomas, Education Correspondent

BRITAIN'S industrialists believe that poor educational standards are the most serious long-term threat to the country's competitiveness, according to a survey published yesterday.

The survey of 72 senior business people was carried out by the Bow Group, the Conservative Party ginger group.

British Petroleum, Cable and Wireless, Consolidated Goldfields, Dowty, Ferranti, General Electric Company, ICI, Jaguar, Logica, Plessey, TI Group and United Biscuits were among the companies whose chairman, chief executive or managing director responded to the survey in person.

Education and training were rated as very high or high priorities for Government action by all the respondents, clearly marking it out from all other areas as a focus of business concern.

Respondents complained of an anti-business bias in education, a failure to pay enough attention to basics such as literacy and numeracy and inadequate funds going into the sytem. One commented: "Improvement in this area would contribute more than anything else to raising competitiveness in the long term."

The respondents generally agreed that business should have an increased say in education, although this should stop short of control and funding.

Other priorities for government action included the health service, inflation, interest and exchange rates, improving the infrastructure and greater support for spending on research and development.

The industrialists rated skill shortages and tax burdens as the most serious problems facing their business, although the survey was carried out before the 1988 budget. Three quarters of respondents thought the Government could be doing more to encourage labour mobility.

Most respondents rated stability of exchange rates as important, with almost two thirds supporting full British membership of the European Monetary System.

Takeovers were not seen by many as a significant problem, with two to one against tighter controls. Three quarters were against an interventionist Government policy in industry, but a similar number supported greater Government-business co-operation.

Only 16 per cent thought that excessive trade union power was still a problem.

The great majority supported more privatisation, although with greater competition for previous state monopolies. Four out of five were opposed to actions to protect British industry from overseas competition.

Industrialists' Views on Government Policy Priorities. By Ron Crompton, Phil Gott and Jonathan Smith, Bow Publications, 240 High Holborn, London WC1B 7DT. £5

Electricity revenue 'should finance amenity fund'

By Bridget Bloom

A PRIVATISED electricity industry should be made formally responsible for pursuing environmentally friendly policies, particularly in relation to the siting of local power lines in rural areas, the Countryside Commission, a Government supported environmental body, has urged.

Sir Derek Barber, commission chairman, said in London yesterday that the Commission believed area electricity boards should allocate a percentage of their annual income from electricity sales to an amenity fund.

This would finance a programme aimed at burying electricity lines below ground, starting in national parks, areas of outstanding national beauty and village conservation areas.

Sir Derek said the Commission hoped to secure government approval for its proposals before the electricity industry is privatised over the next three years. They could then be incorporated in the legislation.

The Commission's proposals would apply only to 11kV lines and below, which account for nearly 80 per cent of all overground electricity lines in England and Wales. It would not apply to the higher voltage cables which distribute electricity in bulk across the country.

"We accept that it is not generally practical for high voltage national grid cables to be put underground because of the very high cost involved," but costs for low voltage cables were "much more manageable", Sir Derek said.

The Electricity Council had estimated that it would cost £200m to bury the whole of the 11kv system in South East England and a further £400m for the 400V network. The costs of burying cables in the most sensitive areas would be only a fraction of that and would have a minimal impact on the price of electricity to the consumer, Sir Derek said. Sir Derek, who was launching the Commission's annual report, also criticised current planning policies in rural areas.

Call to speed pace of prison reform

By Alan Pike, Social Affairs Correspondent

THE GOVERNMENT was yesterday urged by the all-party House of Commons Public Accounts Committee to quicken the pace of improvement in Britain's prisons.

In spite of the Home Office's present building programme, says the committee, there will still be 26 prison establishments completely lacking in night sanitation by 1999. This would lead to 14,500 prisoners still being involved in the process of "slopping out" and the Home Office admitted that it know of no other European country which had a worse situation.

"We consider this to be unacceptable, and urge the Home Office to find ways of bringing about a faster improvement in conditions," says the committee's report.

The committee recalls that in 1985-86 it commended the Home Office for setting itself a "tough target for the elimination of overcrowding." It was felt that this approach had sharpened up performance and delivery in the prison building programme.

But the Home Office had now informed the committee that the target would not be achieved because of unpredicted surges in the prison population.

Financial Control and Accountability of the Metropolitan Police; Court and Prison Building Programme. Committee of Public Accounts. House of Commons Paper 196. HMSO £5.70

ANZ Bank regroups London operation

By Paul Cheeseright, Property Correspondent

AUSTRALIA and New Zealand Banking Group is consolidating its London banking operations in a series of property transactions involving Land Securities, Britain's biggest property investment group, and Eagle Star Insurance.

Land Securities announced yesterday that it was buying from ANZ Bank the freehold of a 30,000 square feet office building constructed in the 1960s on Gracechurch Street in the City of London for £23m. ANZ will lease the property back for two years.

ANZ Bank is buying the freehold of Minerva House, a 140,000 square feet building close to Southwark Cathedral, which it already leases, from Eagle Star. Its staff in Gracechurch Street will move to Minerva House next year.

Although no price has been disclosed for the Minerva House deal, the cost to ANZ Bank of consolidating on the south bank of the Thames will not be wholly offset by the sale of the Gracechurch Street property.

ANZ Bank has been progressively moving staff to Minerva House since 1983. So far 750 have moved.

Rising accommodation costs in the City of London, coupled with the desire to achieve higher levels of efficiency by having staff under one roof, has prompted not only ANZ bank but other financial institutions to move some operations out of the City.

Fina buys Marathon North Sea licences

By Steven Butler

MARATHON OIL UK, the subsidiary of USX corporation, has sold its interests in two North Sea licence blocks to Fina Petroleum Development, owned by Petrofina, for an undisclosed sum.

The deal includes Marathon's 10 per cent interest in the Alba field, block 16/26, which is believed to contain between 250m and 300m barrels of oil.

An 11 per cent interest in block 16/27b is also included.

Mr David Black, of County NatWest WoodMac, said that the deal would be worth between £20m and £40m depending on Fina's tax position and assuming that there were 250m barrels in the field. Other analysts put the figure higher.

Marathon said that the asset disposal was aimed at allowing the company to concentrate on blocks in the North Sea where it has larger interests.

As corporate America starts to awaken to the competitive power of design, but puzzles over how it should be managed, several separate initiatives are being taken to study, teach and promote the subject to executives.

They range from research at Harvard Business School, and the teaching of design management at Boston University, to the mounting of several exhibitions with a trade promotion element at home and abroad. Some of the funding is coming from the federal government's National Endowment for the Arts (NEA), but an increasing amount of support is also being provided by major corporations.

Apart from the Stanford Design Forum (see below), the most international programme at present is the Triad Design Project, a large research, symposium and exhibition initiative which will compare the design management process of 15 companies from the US, Japan and Europe. Backed by Harvard and the NEA, it is being organised by the Design Management Institute, a 12-year-old association of US design managers whose individual and corporate membership has more than doubled to over 200 in the past two years.

The DMI's normal activities include several conferences each year, the most recent of which was held last week in Massachusetts.

The DMI is run by an American, Earl Powell, but as with several other design initiatives in the US, much of the intellectual input for the Triad project is coming from Britain: in this case from Dr John Heskett, who has taken leave of absence from his job at a UK college of design to lead the research as a senior fellow at Harvard.

After the Triad exhibition and an associated series of symposia are launched with a large national conference at Harvard next spring, they will go on tour in the US and then to Japan, West Germany and possibly Britain.

A separate set of forums and exhibitions, focusing on US design, is being organised by a long-term expatriate Briton, Professor Colin Clipson of the University of Michigan, through an organisation called "Design America". Its many other aims include the funding of a design lobbyist in Washington, the promotion of American products and designers abroad, and the furtherance of university research and teaching on design management.

Clipson has already developed a base of research and teaching materials under a previous organisational umbrella called "The Competitive Edge".

A third body, the Corporate Design Foundation, is concentrating on consultancy work and the collaborative teaching of design management at business schools. Founded in 1985 by Peter Lawrence, an American who formerly directed the DMI, it is already working with academics at seven business schools, including Boston University, Wharton (Pennsylvania), Stanford and Dartmouth (New Hampshire).

In spite of all this activity, which the three organisations are planning to expand sharply over the next year, the US industrial design community is still casting envious eyes at the level of managerial attention which they perceive the subject as commanding abroad these days, especially in Italy, Japan and – to a lesser extent – Britain. Proposals for a design council in the US to promote design to industry, along the lines of the UK model, have been floated for some years without success.

At the Stanford forum Peter Lawrence emphasised the need to convince many more executives across America that design is not just a matter of surface styling, but a process that should reach right into the heart of general management. He advocated the establishment of a series of regional promotion centres. Heskett called for the development of greater quantification of the commercial impact of design, while Clipson complained that the US currently spends less on research into design than Sweden.

Clipson is now involved in discussions with several large companies about the foundation of a new research and promotional body that would capture the wave of US interest in better management of product development.

How Ford used intuitive design to break free of 'committee cars'

The car-maker regained its former success in the US after abandoning tradition, explains **Christopher Lorenz**

Donald Petersen: gave the designers his influential support

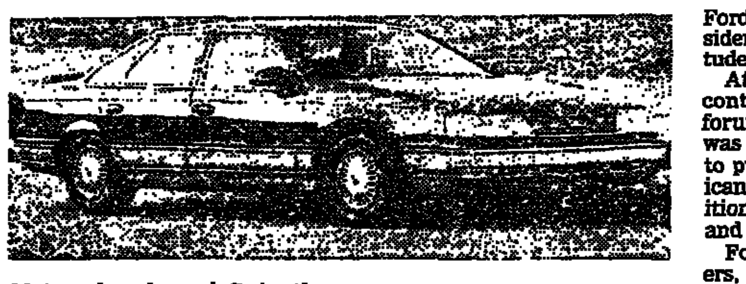
Donald Petersen does not mince words. "Our products became progressively worse until we hit rock bottom," he says. "Drastic measures were called for."

The chairman of the now resurgent Ford Motor Company is recalling the dark days of 1979 in America when, fresh from steering the company towards revival in Europe, he was back as Ford's new president "having to go out in public extolling products for which I had a strong dislike".

Hence one of Petersen's most vital moves at the time: the decision to stop "choking off the creativity of the very people whose job was to be creative" – the company's industrial designers.

Emulating a similar move in Europe a few years earlier, he put them on an equal footing for the first time with the marketing, engineering, production and financial specialists who had hitherto dominated the way Ford developed new cars.

With "room to breathe," as Petersen puts it, the industrial designers played a leading part in creating the sleek, remarkably successful Ford Taurus and Mercury Sable models which have more than rescued Ford's fortunes since their launch in 1985. While Ford's sales have soared, General Motors has been left in the slow lane, battling against a rising flood of Japanese vehicles.



The Taurus (above) and Sable models which have rescued Ford's fortunes since 1985

Petersen's description of the way Ford finally junked its long tradition of producing lacklustre "committee cars", as he calls them, was a highlight of the inaugural meeting in California earlier this month of the Stanford Design Forum.

A select network of top industrialists, designers and academics from the US, Europe and Japan, the forum is sponsored by Stanford University's alumni association, although the prime mover behind it is Colin Forbes, a founding partner of Pentagram, the British design consultancy.

The influence of British ideas on American industry's fast-growing use of industrial design was reflected in the strong UK presence at the meeting, including several consultancy chairmen and two academics who are playing a leading role in US research into the way design should be managed (see above).

Ford's use of industrial design in the Taurus/Sable programme was much more than just styling, and demonstrated that design is – or can be – "a major strategic weapon", said Petersen. It had not only opened up new markets for Ford, but had also had a considerable effect on internal attitudes.

At the heart of Petersen's contribution throughout the forum's two-day deliberations was an issue which is starting to puzzle and preoccupy American industry: the role of intuition and emotion in marketing and corporate strategy.

For most American managers, strategy-making has been seen for decades as an entirely cerebral process, in which cost analyses, portfolio planning, "experience curves", and "hard" market research data are all-important.

But now there is increasing recognition that this has only bred paralysis-by-analysis, and has put the US at a competitive disadvantage to Japan's ability to anticipate consumer preferences and mould them, and to introduce new products with remarkable speed.

Influenced by the Japanese, and by million-selling books such as "In Search of Excellence", companies have begun paying more attention to the so-called "soft" aspects of management, such as leadership, intuition, and consumer "lifestyle" research.

This shift in attitudes is now helping to make top managers more receptive to the idea that industrial design, a heavily intuitive activity, may have a more significant role to play than they have allowed it in the past.

The consequent growth of interest in the way design should be positioned and managed within the corporate hierarchy, is also being fostered by the speed at which, like any fashionable idea with untapped potential, design is starting to catch on among management consultants and business schools.

Tom Peters, the campaigning co-author of "Excellence", who runs a constant stream of well-attended lectures and seminars across the US, has recently added design to his list of necessary attributes for corporate recovery. At the academic level, Harvard and several other leading business schools have started to sponsor research into design management, and several are already teaching it.

Henry Mintzberg, a Canadian who is one of the most influential strategy academics in North America, has recently begun drawing parallels between the design process and the way corporate strategy should be created; at a Design Management Institute conference in Massachusetts last week he was the star speaker.

The practical workings of "informed instinct", as one chief executive described design, were explored in depth at the Stanford forum by Kazuyoshi Ishizaka, president of Kenwood Corporation, the Japanese car radio and general audio equipment manufacturer (it has no connection with the British appliances company of the same name).

In consumer electronics, said Ishizaka, breakthrough innovations had become scarce, and the market in most countries was mature. So the success of a product now lay not just in its hardware, but also in the "software" surrounding it (including its image and feel). "This therefore puts intense pressure on a number of intangible, unmeasurable and subjective factors in order to develop our business. This is where the concept of design comes into play as a critical factor."

Over the past few years, said Ishizaka, a much greater use of designers had given Kenwood the ability to develop products that consumers consciously still did not know they would need, but which were implied by their replies to market research and by their actions. This research consisted only to a limited extent of what Ishizaka called "standard marketing reports" and consumer panel sessions.

Far more important, he suggested, were direct visits by Kenwood staff to people in their homes, which provided much better knowledge of their actual living environments, and greater insight into their future needs.

In revitalising Kenwood over the past six years "I didn't depend on market research, but on intuition," said Ishizaka.

Though it was the external appearance of the Ford Sierra, and of the Taurus/Sable, which had the greatest initial impact on the consumer, Petersen stressed that Ford's industrial designers had also influenced the functioning of the cars.

"A pretty object that meets its cost targets is not enough," he said. "It needs inherent value."

For instance, Ford's long-standing approach, in line with GM and Chrysler, had been "to divorce the driver from the road," said Petersen. But his European experience suggested that, particularly in Ford's new (more upmarket) target segments, drivers wanted to feel more directly in control of the car's handling, for example. So he supported the designers' suggestion that the wheels should be moved out "to the edge of the car" to improve road-holding.

Throughout the Taurus/Sable project, effective working of the cross-functional development team was vital, said Petersen. The designers often had to fight for their proposals, and did not always win. The new "wagon" (estate car) would have had an even better aerodynamic performance if the designers had been allowed to streamline its rear end as much as they wanted to, but Ford's marketing experts were afraid this would suggest that the vehicle had inadequate interior space. On the other hand the designers did manage to persuade their colleagues in marketing and engineering that the Taurus and Sable should break with hallowed Detroit tradition by having no radiator grille.

Petersen gave the designers his influential support right through the project – often from behind the scenes – by "stiffening their spine within the team discussions," as he put it. Jack Telnack, Ford's vice-president of design, described this process as "directed autonomy".

But would the newly elevated role of design within Ford, and other corporate converts, be continued when the top-level champion left the scene, asked the meeting's chairman, Harold Evans (former editor of Britain's Times and Sunday Times newspapers). All would be well, replied Petersen, provided companies could "get the right processes in place". Just as designers had to improve their understanding of engineering, manufacturing and marketing, so the latter were also becoming broader. The key factor was inter-disciplinary teamwork.

Sir James Blyth, chief executive of Boots, the UK pharmaceutical and retail group, was more cautious. He agreed that "where most designers have had success is in harmony with someone at the top who possesses apostolic zeal". But if that commitment were to be sustained, a company's whole culture would have to be changed.

Perils of treating executives like machines

By Michael Dixon

"WHAT happens if an executive we engage through your firm turns out to be a *no-no or goes* off to work for somebody else?"

The question, asked by one *of a dozen* personnel *managers* at a London seminar the other day, drew a confident smile from the headhunter who had staged the meeting to peddle his consultancy's services. He explained that if such a thing occurred within 18 months of the appointment, his company would make another search for a replacement free of charge.

"I see," replied the personnel boss who had put the question. "*You're saying* that *all* your used executives come with an 18-month warranty."

Whereupon everyone except the headhunter guffawed. But the resemblance between executive search consultants and second-hand motor dealers has serious overtones too. For the *Jobs column has* gained the impression, not least from readers' comments, that employers' hunger for ever better performance is putting executives under more and more pressure to operate like machines.

So we might all do well to note another of the laws of the *workplace devised by Norman* Augustine, chief executive of Martin Marietta, which were *previously mentioned* in this corner of the FT on June 22 and August 17. The law in question today declares that the *last* extra 10 per cent of performance generates one third of the costs and two *thirds of the problems.*

Mr Augustine evidently meant that rule to refer only to *real machines such as his* company's products and the manufacturing systems it uses to produce them. Even *so* it seems highly likely that the law will also apply to people required to operate in similar style. What is more, there are reasons to think the stresses the law implies will have worse effects on humans than on mechanical or electronic devices however complex.

For one thing, the only way machines can stress other machines is by increasing the *physical strains they* are supposed to cope with. They do not, as far as I know, go around imposing psychological burdens on one another simply because they are too stupid to realise that they *differ* in kind. But people do.

For another thing, when *machines are strained* beyond endurance they stop, and that's that. Humans, on the *other hand*, tend to react more subtly. *They* mostly go on operating but in ways which, while varying with personality, *are usually counterproductive*.

A leading authority on people's responses to stress at *work is the psychologist* Andrew Stewart, head of the Informed Choice consultancy (Broadmeads, Ruskway Lane, Westport, Langport, *Somerset* TA10 0BW; telephone 046-08 448). His favourite method of outlining their characteristic reactions is to link them with personality types as revealed *by a fairly straightforward* and widely used test called the Myers-Briggs Type Indicator.

It measures four broad factors of personality, each of which can be thought of as two adjacent boxes with the person tested falling into one or the other. The first factor, for *example, divides people who* are mainly extraverts from those mainly introverted – a distinction which, although not as clear-cut as is commonly supposed, is well enough known to need no explanation. The other three, however, are less familiar.

Approaches

One of them distinguishes folk who approach the world primarily by *sensing* what is going on, from those whose approach is more *intuitive*.

"Sensing types dislike new problems unless there are standard ways to solve them," Dr Stewart says. "They *work steadily* with a *realistic* idea of how long it will take. While seldom making errors of *fact*, they get impatient with complex details and see a new idea's snags before its good points. They regard intuitive types as *slapdash* and *head-in-the-clouds*.

"Intuitives, for their part, like solving new problems and dislike doing the same thing over and over again. They work in bursts of enthusiasm with slack periods between. They're patient with complex detail, but often fail to test new ideas against realities. They see sensing types as plodding and blinkered."

Another factor distinguishes people who operate by making judgments, from those who go by their perceptions. *Judging* types live according to plans and traditions, and thrive on authority, structure and predictability. While decisive, they are not only slow to see a need to change but resent it. *Perceiving* types start more projects than they complete, postpone unpleasant tasks, and tend to resist externally imposed authority and accountability. But they adjust fairly easily to the unexpected.

The remaining factor divides folk whose acts are governed by *thinking*, from those driven by *feeling*.

The thinkers like analysing things logically and can work *without* harmonious relations with other people. On the other hand they dislike what they consider irrational behaviour, often to the extent of ignoring it altogether. Feeling types, who are sharply aware of *others'* emotions, try *hard* to understand and take account of "irrational" behaviour. They *set such store by harmonious* relations that they often strive to maintain them at the cost of *neglecting impersonal realities*.

Although the Myers-Briggs test distinguishes between a *total of 16 separate kinds of* personality, Dr Stewart says that for most purposes just *four can be regarded as basic*. Each tends to react to stress in a separate way, as follows.

First come sensing judging types, whose popular image is that of the bureaucrat. As they are detail-minded and adore structure, when things go wrong they often respond by obsessively checking minute particulars and imposing extra structural controls.

"They may seek to eliminate ambiguity when the situation is genuinely ambiguous, thus pursuing a goal which for them is *clear* but which *also* happens to be wrong," Andrew Stewart adds. "And they can react to *failure of their efforts by* throwing more resources at the problem rather than trying out *different tacks or admitting* that it's insoluble."

Sensing judgers are apt to be *the bugbears of the second* basic type: *intuitive thinkers*. They are characteristically innovators and iconoclasts, who care nothing for others' feelings. If they cannot break a bureaucratic regime they feel *is hampering them*, they obey it in a spirit of dumb insolence. Trusting their own talents far *above anyone else's*, *they tend* to respond to stress by overworking. Faced with conflict, they fight – *often* damaging their political cause in process.

Next are the *intuitive feeling* type whose *prime concern* is to please people. A particular source of stress for them is the sense that fellow humans are in pain. Their typical responses are to sacrifice their interests to those of others or to become preoccupied with their own internal being. The flower-power movement of the 1960s was evidently very much an intuitive-feeling phenomenon.

The remaining type consists of *sensing perceivers*. They like to have a lot going on around them that they can experience and react to, creatively for preference. In a quiet place where *little* is happening, they soon begin to fret. Their usual response to feelings of stress is to retreat from the problem bodily or psychologically.

Since one of their favoured psychological escape routes is *into frivolity, they can be fun* to have around in adversity. The snag is that sensing perceivers are *more prone than* the other basic types to the classic nervous breakdown. So it is perhaps comforting to learn from Dr Stewart that they are rarely encountered in industrial settings.

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Mergers & Acquisitions

U.S. Investment Bank

Increasing volumes of international merger & acquisition activity has lead to a requirement for an experienced M & A professional with at least two years' relevant experience gained within the banking sector. Fluency in another European language apart from English would be of particular interest.

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NORWICH UNION

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Head of Department

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INTERNATIONAL APPOINTMENTS

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THE HUMAN RESOURCES DIVISION MANAGER
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ABU DHABI NATIONAL OIL COMPANY (ADNOC)
P.O. BOX 898 - ABU DHABI - U.A.E.

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MSL Advertising,
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Espacontrol Deloitte Haskins Sells

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- GRANADA

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NATIONAL FINANCE DIRECTORS EXHIBITION

28 Sept - 30 Sept

Visit the Financial Times stand, No 6, at the National Finance Directors Exhibition, The Business Design Centre, Islington N1.

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

INTERNATIONAL APPOINTMENTS

AMOCO

Amoco Chemical (Europe) S.A., A multinational company, manufacturing high performance carbon fibers, prepregs and engineering polymers, is looking for an

AREA SALES REPRESENTATIVE

to be based in the United Kingdom (London area).

Function: To organize, coordinate and perform marketing/sales activities for carbon fibers and prepregs in U.K., Ireland, Netherlands and Scandinavia. The Area Sales Representative will have direct responsibilities with respect to the sales of products in the assigned area.

The successful candidate will have the following profile:
- Excellent technical and professional qualifications in polymers, engineering and advanced materials;
- Strong marketing/sales experience (5 years minimum), a marketing experience in the aerospace market would be an asset;
- Fluency in English, other languages (German,French) would definitely be useful;
- Willingness to travel

If you meet the requirements of this challenging position, please send your resume, (in English) references and salary history to:

Nicole Grosfilley
Amoco Chemical (Europe) SA
15, rue Rothschild
CH-1211 Geneva 21

هكذا من الأصل

TECHNOLOGY

Trying to live up to those great expectations

Louise Kehoe previews the unveiling of Steve Jobs's 'NeXT' computer amid a flurry of rival products

Steve Jobs has finally named the day. On October 12, he will unveil his long awaited NeXT computer. The co-founder and deposed chairman of Apple Computer has kept the rumour mill buzzing ever since he left Apple in 1985 promising a product that would change the world of computing.

Most such claims would win little credence, but Jobs has a record of success that cannot be ignored. With his boyhood friend Stephen Wozniak, Jobs founded Apple and commercialised the personal computer. Then came his Apple Macintosh, introducing a new style of computing which continues to influence the industry.

But what is NeXT? A veil of secrecy covers the company's headquarters in the hills above the Stanford University campus in Palo Alto, California. Among the few who are privy to NeXT's plans, however, the word is that the product will live up to Jobs's reputation.

"I believe that when people see the machine and what NeXT is doing, all of the grumbling about how long it has taken will be forgotten," says Jonathan Seybold, a personal computer market researcher.

Even John Sculley, who ousted Jobs from Apple, concedes that Jobs is unlikely to disappoint industry watchers. He is quick to point out, however, that he has not seen the NeXT machine.

Jobs is, at least initially, aiming his product at the college and university market, which demands high performance at relatively low cost.

Eagle eye

Ultimately, however, analysts expect him to seek a broader market.

By piecing together industry reports and the little that Jobs has said about the product, a rough picture of the NeXT machine emerges.

The company has spent heavily on industrial design. Everything from its logo to the shape of its product has been carefully co-ordinated. The machine itself is expected to be housed in a small black cube.

Inside Jobs's black box resides Motorola's 68030 32-bit microprocessor. This high performance chip is also at the heart of Apple Computer's latest product, the new Macintosh IIx, which many see as an attempt to steal Jobs's thunder.

In order to run sophisticated software, the NeXT product is expected to incorporate up to four megabytes of memory chips. Also expected are custom chips that produce advanced video displays and sound. This combination could push the price into the $6,000 (£3,600) range.

Jobs is said to have adopted a version of the Unix operating system called Mach, developed at Carnegie-Mellon University for his product. Also linked to NeXT is the Adobe Systems Display Postscript software for managing video displays, which Jobs extolled at a recent industry conference.

An important, but still secret, element of the machine is that it is expected to have a graphical user interface, like the Apple Macintosh. This is a system of displaying commands that makes the machine easy to use. What these displays will look like is the subject of intense curiosity.

If the NeXT machine resembles the Macintosh too much, Jobs risks a law suit from Apple. If it is radically different, as some suspect, then it may represent a breakthrough in computer interface technology.

The latest story about NeXT is that IBM is so impressed with its graphical interface that it has bought the rights to use the technology. Those who recall Jobs's Apple days, when he was an outspoken IBM critic, find it hard to believe that he has done a deal with "Big Bad Blue", but stranger things have happened in the computer industry.

A rush of new personal computer products took industry analysts by surprise this month. Apple Computer, for example, had previously said that it would not introduce any new computers this year, but proceeded to launch two new models this month.

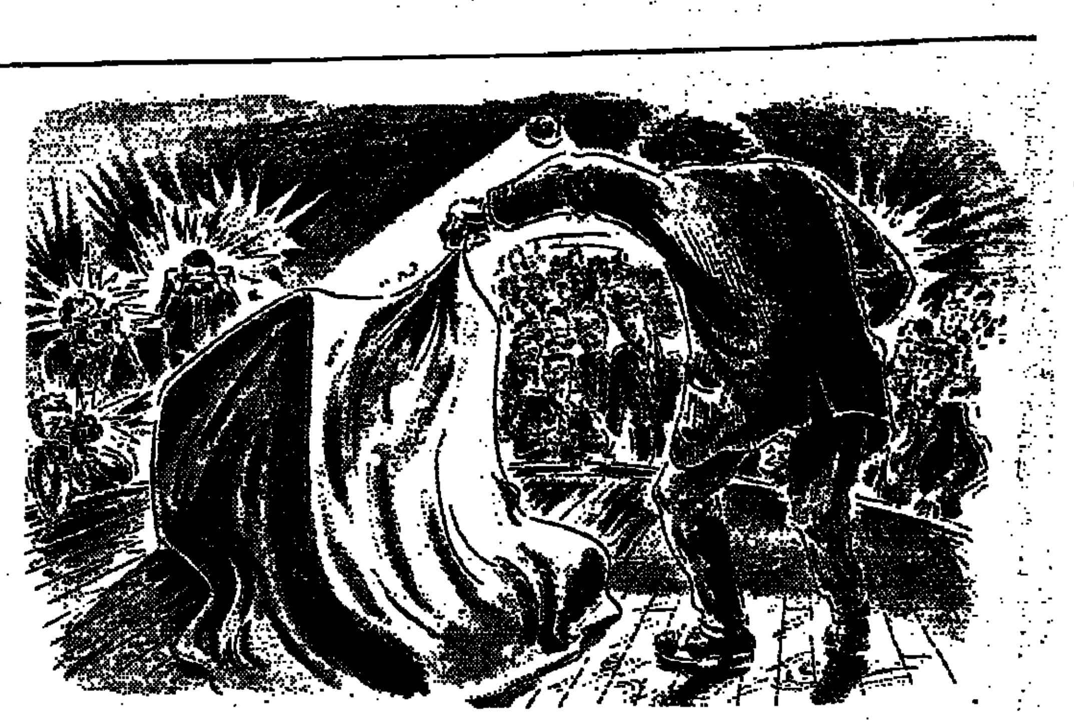
Why the change of strategy? The Apple IIc plus, its first home computer since the original Apple II, appears designed to persuade Apple's US dealer network not to abandon the Apple II line. Many US computer stores do not carry the Apple II, concentrating instead upon the Macintosh. Apple II sales, which will total more than $1bn this year, are primarily to schools.

The company says that the Apple IIc plus will be sold only in the US because the home computer market is not strong enough elsewhere to support the product.

Apple's new Macintosh, the IIx, was dismissed by analysts as an attempt to pre-empt the NeXT product launch. "Why else would a company bother to upgrade processors – going in this case from a Motorola 68020 to a 68030 – for a mere 15 per cent performance gain. This is not what we're waiting for from Apple," says Richard Shaffer of Technologic Partners.

Compaq's launch of a new 32-bit desk-top computer did not live up to expectations either. The leading "compatible" maker had been expected to launch a lap-top portable computer. Compaq has toyed with the idea of a lap-top for years, but never taken the plunge.

With lap-top sales now showing an annual growth rate of 70 per cent, Compaq was expected to make its bid with a product designed to appeal to business travellers. The latest word is that Compaq will launch a lap-top next month, but the company declines to comment.



The battle over the future of Unix, the AT&T computer operating system, appears to be moving towards a truce of sorts. AT&T may be about to join the Open Software Foundation (OSF), the group formed by dissatisfied Unix licensees including IBM, Hewlett-Packard, DEC and Apollo.

"Talks and negotiations are going on," spokesmen for AT&T and OSF confirm. "We are optimistic about the outcome," the OSF official adds.

OSF was formed in May in response to concern about AT&T's joint venture with Sun Microsystems to develop a "unified" version of Unix. The foundation has set out to develop its own version of the software, which it hopes to establish as an industry standard.

OSF aims to wrest control of Unix away from AT&T and place it in the hands of a group dedicated to open standards. Since May, the foundation has been gaining members and momentum, but critics still say that it will find it difficult to agree common standards.

John Doyle, OSF chairman, bristles at such criticism. "The member companies of OSF have diverse interests," he acknowledges, "but individual sponsors have no direct influence over the software development effort.

"OSF is the best funded software start-up in history," Doyle claims. The non-profit group started out with eight sponsors, each contributing $13.5m. The difference between OSF and any other software start-up is that "our venture capitalists have no equity and no overt control. The only thing that sponsors can do to influence OSF is to change the members of the board of directors on an annual basis, and we don't expect that to happen," says Doyle.

"If AT&T joins OSF, then Unix may converge into a single, open standard," he suggests. "The rules of OSF would ensure that it would be a truly open standard."

As for AT&T's joint venture with Sun Microsystems, "I would hope that AT&T would contribute to the OSF product rather than build a rival Unix. I hope that the OSF product would make it (the AT&T/Sun development) unnecessary," says Doyle.

Presidential candidates are not the only ones talking politics these days. The leaders of high technology industry in the US are taking an increasing interest in the workings of Washington.

By backing candidates, speaking out on national and international issues and hiring a growing clan of Washington lawyer-lobbyists, computer and semiconductor manufacturers aim to ensure that their interests are not forgotten.

Leading an effort to maintain and improve the industry's international competitiveness, John Young, president of Hewlett-Packard, chairs the Council on Competitiveness, a group of executives, academics and labour leaders, which recently issued a report calling upon the US Government to pay more attention to technology.

Americans have taken technological leadership for granted for too long, Young warns.

"Foreign competitors are often doing a better job of commercialising technology. We often are the developers of that technology and they are the ones who successfully bring it to market."

The industry needs a technology champion in Washington, Young says. The council recommends the appointment of an assistant to the President to advise on science and technology issues.

But he is not volunteering for the job. "I've got plenty to interest me here."

Who then, should take up the challenge? It should be somebody who understands the industry and knows his or her way around Washington, Young says. "Somebody like Bob Noyce (recently appointed chairman of Sematech) or Eric Bloch (head of the National Science Foundation) would be ideal."

A catalyst for savings in the drying process

By Della Bradshaw

THE LUMIERE brothers are famous for inventing the moving picture which is the basis of modern cinema.

They were also responsible for a more mundane discovery: how to use a catalyst (which speeds up a chemical reaction without itself changing form) to create a form of heating which has no naked flame.

In most of Europe the technology is only just beginning to take off, in spite of that discovery back in 1916. But in France it has already found widespread use as a method of industrial heating and drying. Companies such as Atelier Constructions Industrielles de Rhône (ACIR) have followed in the footsteps of the Lumières, their compatriots, in exploiting thermal catalyst technology.

Manufacturers of the equipment believe it is more economical to use than industrial hot air heaters or driers and safer than equipment with naked flames, particularly in applications involving solvents or other flammable materials.

Bill Miller, director of Sunkiss which sells the ACIR products in the UK, claims that for drying paint on cars, the thermal catalyst driers can cut the cost by 85 per cent compared with traditional hot air driers. France's gas authority, Gaz de France, is also exhorting manufacturers to switch to such products, quoting energy savings of up to 91 per cent for drying the enamel finish on electric motors.

ACIR has developed a range of products which use catalytic plates of platinum and other precious metals to speed up the reaction between the fuel (either natural gas or propane) and the oxygen in the air. The platinum generates an exothermic exchange which gives off infra-red heat. The surface temperature of the heater is 800 deg C and glows red, but there are no naked flames.

Probably the largest potential market for the equipment is in drying paint on cars, buses or aircraft. At the moment, completed cars are baked at 60 deg C in hot air chambers, or spray booths, which dry the paint but also heat up the rest of the car. "It's like cooking the kitchen to make a slice of toast," says Miller.

Because the heat is radiant, the surfaces it hits are warmed up, rather than the surrounding air. In addition, the thermal catalyst drier emits infra-red heat, so that the heat emission spectrum is tuned to the organic absorption rate of the paint, enabling rapid drying without the rest of the car being cooked.

The driers can be fitted in the spray booths – French car manufacturer Citroën already uses one of these systems. Portable versions can be used to dry small sections of a car.

Miller believes that the anticipated switch from oil-based to water-based paints – to eliminate pollution – will mean that higher temperatures will be necessary to dry the paintwork. As the car's components would also be heated to higher temperatures by conventional methods, the risk of later mechanical failure would increase.

Another ACIR product is a space heating system for large buildings. Guiness has installed this form of heating in its Dublin brewery.

In Britain, the products have been passed by the Health and Safety Executive and the Fire Officers Committee.

Software for advanced editing

By Geoffrey Charlish

IBM HAS introduced publishing software for its Personal System 2 computers, models 70 and 80, which allow the user to integrate text, graphics and images from a variety of sources.

Called Interleaf, the software is able to handle all aspects of the production of lengthy and complex documents without recourse to other programs to create or revise text or illustrations.

Users can, however, readily "import" material from other IBM systems, such as text from the DisplayWrite/4 word processor, digitised images from the 311X scanner and ImageEdit software, and graphics in industry standard forms from other makers' systems. All the material can be extensively edited.

TELEVISION

A week in the life of the Prix Italia

Christopher Dunkley reveals the contents of his notebook

MONDAY
Yesterday we went out to play: a trip by hydrofoil and coach to Paestum to look at the three unusually well preserved Greek temples, followed by a seven-course lunch. Today we are back on the Island of Capri, and the lights go down at nine o'clock in the viewing rooms at the Certosa di San Giacomo. This 14th century monastery, built around twin cloisters, is the centre of our activities: here we have our pigeon holes (two international TV magazines this morning, umpteen programme promotion booklets, and an invitation to attend the CIRCOM seminar "Cinema And Television: Who Is David, Who Goliath?") The viewing rooms show whichever programmes are currently being screened for the juries; the playback rooms do the same for the radio contest; and – now that we are into the second week of the festival – the dozen "On Demand" videocassette cubicles are almost always full.

Thinking the BBC's *Tumbledown* should win a prize I watch it again on cassette, and notice for the first time that a Guards officer in the Falklands is shown going into action with a semi-automatic rifle in one hand and a swagger stick in the other. Did they *really?* And will an international jury appreciate such wonderful/awful stiff-upper-lipism as the briefing officer's instructions "Then the 4th/7th Gurkha Rifles will take over, and bat on to take Mount Tumbledown"?

TUESDAY
Paul Hamann's extraordinary programme *14 Days In May*, which chronicles the final weeks in the life of Edward Johnson on "death row" in a Mississippi prison, has reached the shortlist for the documentary prize. Hardly surprising: whatever it did to the jury, it caused more interest in the observers' rooms than anything else in this category.

Channel 4's documentary *A Russia Of One's Own*, is not shortlisted. Fair enough. This programme about Russian émigres in the US is one of several in the festival which editorialise openly. At the end of NBC's *Home Street Home* about New York's homeless, reporter Tom Brokaw turns to camera and says "what we have seen tonight is a national disgrace . . ." At the end of the C4 documentary a voice says "I will return when . . . " but it is not clear whether this is one of the émigres we have seen, or director Andrei Nekrasov. Subjective television is fine, but we should always know the identity of the first person singular.

There is considerable anger because the jury refuse to give the BBC's '14 Days in May' even the special prize

WEDNESDAY
For the second time in three years the jury judging television music programmes declares that no entry is worthy of the actual Prix Italia (which, at L.10m – about £4,400 – is worth having). At the press conference I stand up and suggest to the new secretary-general, Piergiorgio Branzi, that while "Drama" and "Documentary" are good categories for television prizes, "Music" is an historical anomaly inherited from 1948 when the Prix Italia began in Capri as a radio festival. Music programmes are a prime constituent of radio, but "Arts" would be a much better category for television. Such a change might also avoid the annual wrangle about when a programme ceases to be a music programme and becomes an arts documentary. In the simultaneous translation my "Arts" apparently becomes "art," Sig. Branzi thinks I am suggesting a prize for programmes about painting, and the point seems to have been lost for another year.

The second or "special" prize for music is awarded to Inger Aby's atmospheric programme *Le Confidence* which tells a vaguely mystical tale about a troupe of actors in 18th century costume reviving a tiny abandoned Swedish theatre with the help of Gluck's music. P.I. regulars recall that in 1983 Miss Aby won the top prize with *Gustavus III*, a programme telling a vaguely mystical tale of a troupe of actors in 18th century costume reviving a (different) tiny abandoned Swedish theatre with the help of Gluck's music. Oh well, they are both delightful programmes.

THURSDAY
Having missed BRT Belgium's documentary *Anthony Burgess: Confessions* I watch the cassette. Burgess is induced to talk quite a lot about sex. He and his prep school chums thought the second syllable of the last word of the school motto – "crescunt" – hysterically funny. Burgess was introduced to sex at an early age: when he was 13 his parents put their 18-year-old Welsh maid to sleep in his room. He attacked a tendency towards premature ejaculation by reciting Milton. Silently, one assumes. No doubt Prince Charles, Mrs Thatcher, and Lord Rees-Mogg will ensure that this filthy programme never reaches Britain. Then they could start burning Burgess's books.

NRK Norway wins the Ecology Prize (which is a three-year-old innovation, so far lacking the status of a full-blown Prix Italia) with *2048: The Greenhouse Effect*, neatly constructed upon the idea of a news programme in the year 2048 looking back to events in 1988. Queen Diana bans all portraits of Margaret Thatcher because of her appalling record on ecology.

Rod Caird of Granada announces that members of the TV documentary jury, of which he is chairman, intend to make a statement about what they want to see in documentaries by awarding the prize to *The Temple*, a post-glasnost/perestroika work from Russia, one of a huge six-part series about the Russian Orthodox Church. Though its classic style, beautiful photography, and powerful effect via the witness of priests and nuns, are recognised by many of the programme makers and observers present, there is then an intense debate during the press conference about the position of the BBC's *14 Days In May*.

To general astonishment the top television award is given to 'The Good Father' rather than 'Tumbledown'

Caird has already used the word "voyeuristic" to describe some of the entries, and of the BBC programme he says that – although several jurors wanted to give it top prize, and none was unmoved by it – "some felt a profound unease at the way it undermines judgement through its emotional force." There is considerable anger in the hall because the jury has clearly indicated how very special they found this programme to be, yet they refuse to give it even the "special" prize; in fact they withhold that prize altogether.

FRIDAY
Largely because, at 17 minutes it is the shortest programme in the festival (two hours is not unusual) I watch the cassette of the Czech documentary (which has the longest title): *Conversation or The Best Soup In The World Is Made From Crabs*. It uses a simple but highly effective concept which I have never come across before: we watch Vietnamese peasants tortuously catching crabs on a river delta – wading waist deep in water, digging furiously in the mud to outwit the burrowing crabs – but on the soundtrack we hear only a couple of bourgeois diners in a western restaurant discussing the delights of crab soup while inveighing against the price. It must be worth a hundred Labour Party Political broadcasts.

In the drama awards Britain nearly sweeps the board. The BBC takes the Prix Italia for radio with *Hang Up*, written by Anthony Minghella and directed by Robert Cooper, and described as "a late night telephone conversation between two young people . . . beneath the excruciating rationality of their conversation there is a mire of good old-fashioned carnal passion." Let's hope Charles, Margaret and William never listen to radio later than the *Today* programme.

To the astonishment of practically everybody outside the jury, the top television award is given to Channel 4's well written and finely acted, but in many ways unremarkable, production *The Good Father* in which Anthony Hopkins plays a vengeful father who helps a friend get custody of his son from his lesbian wife. The BBC's *Tumbledown*, telling of the wounding of Robert Lawrence during the Falklands War, which many at the Certosa feel stands head and shoulders above everything else, is given the RAI (i.e. second) prize.

At the end of the 40th Prix Italia the all-time medal table for television awards stands at 28 Prix Italias for Britain, 10 for Sweden and nine for France. This year Russia took its first ever. This festival is the broadcasters' Olympics: can it really be time for the British government to start dismantling the structure which has produced such international success and esteem? Could they not invite Messrs Murdoch, Maxwell & Co to compete without first smashing up the existing system?

Alastair Muir

Benny Young and Alison Peebles

Jeremy Hardy, Blood Wedding

DONMAR WAREHOUSE

"Born bad, live bad, die bad." Jeremy Hardy's verdict on the Guardian women's page verdict on men sums up in six short words what Lorca takes the whole of *Blood Wedding* to demonstrate. The only other thing the two have in common are the awards which bring them together in Covent Garden as the first pairing of the Donmar Warehouse's customary pick of the fringe season.

Hardy, this year's Perrier prize-winner, fills the mid-evening slot with his observations on life, politics and the Bible. Looking like a public schoolboy class of Burgess and McLean, he fishes Leviticus for absurdities, breaking to rail good-naturedly at his audience or lighting crew before rambling on to a political analysis that deals punches to right, left and centre.

The ramble, of course, is carefully structured and the punches not as random as they might seem – his politics are modishly left of centre, his main targets the disseminators of Conservatism (with big and little C). But just as you think he is getting halfway serious he takes off into a graphic description of the trials of producing a semen sample. One minute lewd, the next Blimpish, the next pithily acerbic, he is always one step wide of insult and one ahead of expectation.

As expectation goes, three times fringe first winners Communicado had some to live up to. Their powerfully stylised *Blood Wedding* brings home a fourth, and richly deserved it is too. Director Gerard Mulgrew annexes a Celtic mournfulness to Lorca's Andalucian fatalism in a production that weaves music, mime and text into a seamless shroud for doomed youth. The play opens with an image of small town claustrophobia – a demonically laughing gathering that is suddenly silenced by the full-blooded keening of a woman in black, one of two divas whose singing punctuates and guides the story along its allotted course.

Karen Wimhurst's score, sung unaccompanied by Judah Collins and Moyra Paterson, is refreshingly original, drawing from the diverse roots of Spanish culture – at times almost Arabic, at others pulsing with the excitement of Gipsy dance before drifting back into minor key melancholy. Lorca's theme of the individual trapped by fate is vividly relayed by a cast mature beyond their years – Barbara Rafferty particularly is superb as a mother whose destiny it is to see her worst fears realised by her limping, kind-faced son (Robert Pickavance). The translation by David Johnston uses farmyard imagery to bring home the bump and grind of the marriage contract. "My son will cover her well. He's from good stock," the groom's mother boasts to his prospective father-in-law by way of tightening the dynastic knot, while Alyxis Daly's earth-motherly maid rehearses the fun that awaits her young mistress in the marriage bed.

Benny Young's Leonardo stands apart – lean and hungry in broken cowboy boots, ineluctably drawing Alison Peebles' passionate Bride away from her duty and conscience. The conviviality of the wedding feast freezes as their eyes meet along the table; their escape is watched by a gibbering moon, whose frigid rantings make it quite clear that all that lies beyond marriage is madness, death and despair, but still they go.

Claire Armitstead

T.S. Eliot evening

ELIZABETH HALL

How well do T. S. Eliot's poems (as opposed to his plays) perform in public? We had an opportunity to judge that on Monday night, when as part of the centenary celebrations, a recital involving readings and musical settings of the poems was given at the Queen Elizabeth Hall under the inevitable heading, *How Pleasant to Meet Mr Eliot*.

Well, *Cats* performs very well, as we knew already; and there were some of the Old Possum poems performed as songs to the Lloyd Weber music by the English Chamber Choir conducted by Guy Protheroe. Interspersed with these were *Macavity* and *Gus: the theatre cat*, read by Suzanne Bertish and Harold Pinter respectively. Pleasant as it was to hear the music from the famous show again, it was in fact the straight readings that were the more enjoyable.

Again, there was an interesting comparison when Pinter read the early poem, *Le Figlia Che Piange* immediately followed by a musical version set by Robin Holloway, with Neil Mackie, the tenor, accompanied by Sioned Williams on the harp. Somehow this very simple poem about a parting seemed able to accommodate musical backing and not to be destroyed by it. This also applied to some madrigals Holloway has made out of the short landscape poems. The more solemn choral settings by Stravinsky and Bliss to parts of the Four Quartets really lose the poetry in the music which overwhelmingly dominates the whole artistic experience.

But there was no music, thank goodness, for *The Waste Land*, which was given in full as a kind of duet by Pinter and Bertish, both reading with real feeling for the text and resisting the temptation to act the lines. This way of performing the work turns it into a multi-voice poem, one, that is, consisting of a medley of different tones and utterances with no single unifying voice.

The finale of the evening was a performance of *Sweeney Agonistes* in the jazz musical setting by John Dankworth, directed by David Penn with John Woodvine as Sweeney. This particular version was last seen at the Globe Theatre in 1965 and it really ought to have a more permanent place in the repertory. *Sweeney* was of course written to be performed and the jazz music is absolutely right for it. The whole cast did the work proud.

Anthony Curtis

Short-list for Booker

The six novels short-listed for this year's Booker Prize are: *Utz* by Bruce Chatwin (Jonathan Cape); *The Lost Father* by Marina Warner (Chatto & Windus); *Oscar and Lucinda* by Peter Carey (Faber & Faber) *The Begining of Spring* by Penelope Fitzgerald (Collins) *Nice Work* by David Lodge (Secker & Warburg) and *The Satanic Verses* by Salman Rushdie (Viking)

Tan and Hoeprich

PURCELL ROOM

Monday's recital by the fortepianist Melvyn Tan and clarinettist Erich Hoeprich was part of the South Bank's "Beethoven Plus" celebration. Beethoven was represented by just one work, the G major Rondo Op.51 no.2, to which Tan brought his familiar refinement and scrupulous sense of rubato, and the meat of their programme was three substantial works from the early years of the clarinet as a solo instrument – *Rossini's E flat Fantasia*, a sonata by Hoffmeister, and Weber's *Grand Duo concertant* Op.48.

They were given on period instruments and in the Purcell Room it proved a perfectly matched and scaled partnership. The elegance of Hoeprich's playing – he is a member of the Orchestra of the 18th Century and Musica Antiqua Koln – was a fine foil to Tan's fastidiousness, and in Weber especially he demonstrated a quite arresting virtuosity, spinning off the runs and skips in the closing pages as if he had all the help the keys of a modern clarinet can provide.

That result, though, suggests a qualitative difference between the approach of period wind instrumentalists to their craft and that of their keyboard or string counterparts. A fortepianist will put the tonal properties of his instrument to positive expressive advantage – Tan's playing, for instance, is a web of carefully graded colours and textures quite outside the spectrum of a modern concert grand – and a violinist will use gut strings and minimal vibrato to generate a totally distinct sound world. But woodwind players seem to regard the closest possible approach to a modern sound as their ideal, and strive to overcome the technical challenges with maximum aplomb.

Hoeprich is undeniably a fine, discriminating musician; this was by any measure an outstanding recital. But I am not sure what it told us about the performance of this particular repertory in early 19th-century terms – perhaps in the end there is little to discover, other than minor inflections of balance and dynamics.

Andrew Clements

1000 Airplanes on the Roof

PHILADELPHIA

Composer Philip Glass and Tony-winning playwright David Henry Hwang raised stellar expectations about *1000 Airplanes on the Roof*, their first collaboration. Premiered two months ago in a hangar at Vienna airport, the play has opened a tour in Philadelphia of 37 cities in the US as part of the American Music Theatre Festival.

The 90-minute monologue with music and a constantly changing slide set depicts the extra-terrestrial adventures of M., a tritely named former New York lawyer now working in a copy shop. She returns home one night to find her block of flats disappearing before her eyes.

As if to prove that man's imagination is limited to the world he knows, Hwang's story rambles in petty observation and mundane conclusions about the extra-terrestrial beings that drag her away. "I enter my mind," a typical comment goes, "there I find webs upon webs." M. fears describing her adventures to others, which is not surprising considering their similarity to induced psychedelic hallucinations. How she ever became a lawyer is finally the only mystery, but one that is never explained.

Hwang gained his reputation with plays about the conflicts in Chinese-American families, where the young abjure the tradition of respect for elders. He made a well-received transition to a more meditative genre with *M. Butterfly*, the Tony-winning rumination about a French diplomat not knowing that his Chinese mistress was a man after a ten year relationship. The play, like the new monologue, tames an outrageous premise by making the central character mundane to the point of lacking any intrinsic interest. It is a serious flaw in both works and not improved here by the mindless good spirits of the wide-eyed narrator, played by Jodi Long under the direction of Philip Glass.

Glass has always had a propensity to create ethereal mood music, especially when writing for his own ensemble, which performs at this production and consists of two synthesizers and four amplified acoustic wind instruments. He matches the emotional swings of M. with a variety of tempi and the soaring soprano of Dora Orhenstein, whose wordless part brings the intergalactic winds to Philadelphia.

The real star of the show is the scenic designer Jerome Sirlin, with his kaleidoscope of images from downbeat New York to the galaxy strewn with sparkling stars. Sirlin, who designed Madonna's *Who's That Girl* tour, knew what to do: give Glass and Hwang a superstar turn that subsumes words and music in a dazzling visual display.

Frank Lipsius

ARTS GUIDE

September 23-29

THEATRE

London

Easy Virtue (Garrick). Transfer of King's Head revival of early Noël Coward, same period but lesser vintage than *Hay Fever*, worth seeing (379-6107).

South Pacific (Prince of Wales). Average, traditional revival of the great Rodgers and Hammerstein musical, with Gemma Craven failing to wash the baritonal *Emile Belcourt out of her hair* (839 5989).

The Phantom of the Opera (Her Majesty's). Spectacular, emotionally nourishing new musical by Andrew Lloyd Webber (839 2244, credit cards 379 6131/240 7200).

Follies (Shaftesbury). Eartha Kitt and Millicent Martin now decorate Mike Ockrent's strong revival of Sondheim's 1971 musical, in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre (379 5399).

Hapgood (Aldwych). New Tom Stoppard mixes espionage, romance and higher physics. Felicity Kendal is the eponymous intelligence agent, Roger Rees and Nigel Hawthorne in elegant support (836 6404, credit cards 379 6233).

Scheveningen

Barnum (Circus Theatre), with Mike Burstyn in the title role (Wed, Thur) (55 88 00).

New York

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater *for eight years but also updated* the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its US incarnation: the skaters do not have to go round the whole theatre but do get good exercise on the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up, silly plot (586 6510).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).

Speed-the-Plow (Royale). David Mamet applies his biting sarcasm and ear for the exaggerations of American language to Hollywood, in this screamingly funny and well-plotted exposé of the film industry (239 6200).

Stranger Here Myself (Public). Angelina Roux performs two decades of Kurt Weil's songs in a one-woman show covering the composer's careers in Berlin, Paris and New York (598-7100).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Washington

Les Misérables (Kennedy Center Opera House). The touring company of the international hit of last season brings to Washington the historical sweep of Victor Hugo, set to music and an insistent contemporary beat. Ends Oct 15 (254 3770).

Sleuth (Eisenhower). Stacy Keach and Maxwell Caulfield star in the mystery pitting a writer against a mild-mannered travel agent who's stolen his wife's affections (254 3679).

Tokyo

Noh (National Noh Theatre). A double bill consisting of the sacred ritual Okina (old man), on which all noh is said to be based, and a true noh play. **Tenko**. Japan's most esoteric art form is not to everyone's taste, but should be experienced at least once by everyone who wants to discover why Japan will never become a "Western" nation. (Most other Noh theatres are open only at weekends; check local press for details). (423 1331).

Takigi Noh (Noh by torchlight). In the warmer months, Japan's most esoteric art form moves outdoors for performances by torchlight (usually augmented by electricity). Two separate programmes, consisting of one noh play and a kyogen (comic interlude) are performed on successive nights among the high-rise buildings of Shinjuku. Sumitomo Building (Wed, Thurs).

Leningrad

Gorky Theatre, Leningrad. The Story of a Horse (adapted from Tolstoy's short story and performed in Russian). The Bolshoi Drama Theatre, better known as the Gorky, was founded in 1919 and is now one of the Soviet Union's most popular and most innovative companies. Its repertoire is strong on both the classics and on new plays by Russian writers. This, its most famous production, is about a sick gelding looking back on his life prior to being destroyed: a sad victim of Tolstoyan destiny. (Wed). Globe Theatre (572 6331).

SALEROOM

British Rail sheds books

The British Rail Pension Fund is remorselessly selling off the works of art it bought in the 1970s when inflation was running riot, the Stock Exchange was depressed, and shrewd investment managers were looking for alternative havens for their cash. Yesterday it disposed of books and manuscripts at Sotheby's, which had advised it on its purchases a decade and more ago.

It was a successful auction, totalling £2,588,443 with just over 4 per cent unsold. Like other British Rail sales of works of art it suggests that, all things considered, this was a good investment idea at the time: few people could have forecast the subsequent boom in stock exchange prices in those dire days. British Rail's pensioners will have enjoyed no dividends from the works of art but prices have risen steadily, and roughly in line with inflation.

For example, in 1978 the Fund paid £38,000 for Jane Austen's autograph manuscript of her novel *The Watsons*, which was never finished and never published in her life time. It stayed in the family until the Pension Fund bought it. Yesterday it sold for £99,000. An even better result was the £132,000 which the London dealer Quaritch paid on behalf of the British Library for another manuscript in Jane's hand – two short novels that she wrote in her teens which also stayed in the family: in 1976 British Rail had acquired them for £30,000.

The top prices were the £247,500 paid for the Doria Atlas, a 16th century Italian atlas which belonged to that Genoese family, and the £187,000 which secured Gould's eight volume *The Birds of Australia with 681 hand coloured* plates. A French dealer paid £132,000 for Balbus's *Catholicon of 1460, printed by Gutenberg* and the first secular book to appear: it is an encyclopaedia of Latin words used in the Middle Ages.

Sir Alexander Fleming's hand written account of the discovery of penicillin, prepared for a BBC broadcast in 1945, was happily bought by St Mary's Hospital for £14,850. Joseph & Sawyer, London dealers, paid £44,000 for an eleven page letter by Rene Descartes, and £41,800 for a document about a grant of land, dated 1581, in which Sir Humphrey Gilbert assigned 1.5 million acres of America to two co-adventurers.

Thomas de Quincey's first part of his *Confessions of an English Opium Eater*, with the manuscript stained by laudanum, sold for £28,600.

Antony Thorncroft

FINANCIAL TIMES

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Wednesday September 28 1988

Tests for UK economy

WHEN A current account deficit of £1.3bn, the second largest ever for one month, can be hailed with relief, one knows that the British economy is entering uncharted territory. None the less, Mr Nigel Lawson, the Chancellor of the Exchequer, must be pleased to have figures that are not merely £840m better than July's, but better than the consensus forecast as well. In his speech in Berlin today he can even claim that one of the world's most dynamic economies is doing its bit for global economic adjustment. Nevertheless, the UK economy is now throwing up some important tests not merely of Mr Lawson but of the policies of the entire Thatcher era.

So far as the figures on the current account themselves are concerned, there are even one or two encouraging features. Thus the improvement has come from a decline in imports, from £9.5bn in July to £8.6bn in August. None the less, the volume of imports (excluding the erratic items) in the three months, June to August 1988, was 14 per cent higher than in the same quarter a year ago and 11 per cent up on the previous quarter. Meanwhile, the volume of exports, excluding the erratic items, in the June to August period was only 1¼ per cent higher than in the same period a year ago and ½ per cent less than in the immediately preceding quarter.

Consumer spree

So the current account continues to show the symptoms of a consumer spree. With demand growing at something like 7 per cent in real terms this year, the supply side of the economy has failed to keep up. The current account deficit for the year so far is £9.2bn. The outcome for the year is unlikely to be less than £14bn and could turn out to be more. In relation to GNP this deficit is larger than that now expected in the US.

Despite exaggerated emphasis on fiscal policy, the key issue in the economic management of the recent past has been monetary policy. The conflict between the Prime Minister and the Chancellor over exchange rates and monetary policy now looks even more damaging than at the time. There are two serious alternatives for monetary control: an exchange rate target against a low inflation currency, like the D-Mark, or a monetary target. The Prime Minister has ruled out the former, while the Chancellor has avoided the latter. The result continues to be a dangerous confusion.

Two questions arise for the immediate future. The more theoretical is whether a current account deficit that reflects the behaviour of private individuals will matter, or not. The obvious answer is that there are common risks affecting all transactions between the UK and the rest of the world, the most obvious being that of uncontrolled currency depreciation. The Government will have to make depreciation look very unlikely, a difficult challenge when the Prime Minister has anathematised the exchange rate mechanism of the European Monetary System as too deflationary.

Important test

The most important test of all, however, is of the Thatcher era's economic policy as a whole. Some sort of "stop" is now virtually certain to follow the Lawson "go". Will the slowdown be made more severe by a need to squeeze out a sharp rise in wage inflation during the coming wage round? Will the underlying growth in manufacturing productivity be maintained? Will increased investment in manufacturing industry make possible a significant rise in exports as domestic demand slackens off, without a large exchange rate depreciation? Last but not least, will newly liberated financial markets cope with what could be a period of declining house prices?

Mr Lawson has enjoyed presiding over a boom made possible in large part by the strong position he inherited from his predecessor. Mrs Thatcher has enjoyed making the claim that the UK economy is fundamentally transformed. As the UK moves into an inevitable slowdown, the test of both of their reputations has now arrived – and of the vitality of the UK economy as well.

Opportunity in Poland

THE ECONOMIC and political crisis in Poland, in the wake of the most recent strikes and the fall of the Government of Mr Zbigniew Messmer, has provided both the Soviet and Polish authorities with an opportunity: the Soviet leadership with the opportunity to demonstrate that Soviet hegemony in Eastern Europe can have its benign and constructive aspects; the Polish leaders with the opportunity to demonstrate that the past seven years have not been wasted and have taught them something of the arts of crisis management and of political coexistence.

Proposals floated by the Democratic Party (SD) envisaging a parliamentary power-sharing arrangement which would strip the Communists of their absolute majority in parliament, requiring them to win the support of other groups, could turn out to herald an important step forward in East European political development. The proposals fall well short of the sort of political pluralism for which many opposition groups throughout the Eastern Bloc are pressing. The range of options in elections would remain tightly controlled and the Communists as the largest group would retain the power to block unwelcome personalities and ideas. There is no suggestion of free elections. But at least political opposition would have, as of right, a platform at the highest level, forcing the decision takers to explain, justify and occasionally modify their policies and actions.

Sponsorship

The parliament would not be more powerful, but it would become more of a forum for debate.

So far the authorities have not clarified their position on the proposals. But they are now on the record with the sponsorship of a legal political group; thus they point the direction in which the Communist Party leaders are looking and define the area they wish to see tested in terms of public acceptability.

Negotiations between the various parties and opposition groups may not start for some months yet but the central issue is already crystal clear: will the Communist leadership have the confidence to make the opposition an acceptable offer? Can they bring themselves to yield sufficient power to enable a credible opposition to develop within the political system, one whose official status will not undermine its support where it counts, that is, in the 200 or so giant factories which dominate the towns.

For Mr Lech Walesa and the other leaders of the born-again Solidarity Movement, freshly invigorated by this year's strikes, recognition of the movement as a trade union is, and must remain, the bottom line for the time being. To settle for less without firm guarantees of a continuing role in industry on the shop floor, would be a reckless leap into the dark.

Compromise

However, the latest signals from Moscow, indicating strong opposition to the return of Solidarity as a trade union, and General Jaruzelski's continuing refusal to contemplate such a step does not necessarily rule out the possibility of a compromise. Both have much to gain if a deal can be struck with Solidarity and much to lose if the negotiations fail, or if a deal unacceptable to the workers is struck and the Solidarity leadership is discredited in the process.

General Jaruzelski appears to have accepted that he needs to get Solidarity on board if he is to have any chance of bringing the economy back on course, and that Lech Walesa is central to this.

Moscow, which over the past four decades has shown its ability to stamp hard on unwelcome developments in its empire, has yet to demonstrate an ability to support and nurture welcome developments. So far it has registered only its disapproval of the strikes and has done nothing to support what must surely be welcome efforts to foster worker participation in the process of government and develop a basis of popular support for the regime.

General Jaruzelski needs support if he is to give sufficient ground to make Mr Walesa an offer his supporters will accept. It is up to Mr Gorbachev to provide it.

Anatole Kaletsky reports on the recent surge in leveraged buyouts in the US

Financial danger is the essence

From 1976 to 1981 it was Latin America. From 1981 to 1986 it was Texas real estate. Will leveraged buyouts, which first became big business in 1986 just as the Texas property bubble was bursting, become the next fashionable graveyard for high-powered financiers' reputations?

Over the last two weeks the shareholders of Kroger Stores, Hospital Corporation of America, Macmillan and half a dozen smaller companies have all been presented with opportunities to sell out to small groups of investors, including corporate management, backed by limitless amounts of borrowed funds. In all, these LBO proposals of the last two weeks have added up to $13bn – equivalent to the whole year's LBO volume in 1985.

In one of the latest LBOs, the $1.2bn offer for Playtex International, the management has proposed to buy again a company they own already as a result of an earlier buyout. The only purpose of the deal: to increase the company's debts and realise a $500m paper profit from the previous LBO.

So far this month, LBO financing has accounted for over a quarter of all commercial and industrial bank lending to medium and large US companies that make financial statements to the Securities and Exchange Commission. These companies have recently been borrowing more money from banks for LBOs than working capital needs.

LBO volumes in 1988 have reached $39bn, according to IDD Information Services, already exceeding the total for the whole of 1987. After trebling from $13bn in 1985 to $36bn in 1986, the level of buyouts stabilised last year at $38bn, largely because of the stockmarket crash in October. Since the spring, however, the LBO business has once again begun to grow at an explosive rate.

The champions of LBOs can argue that they contribute to the process of entrepreneurial renewal. They put control of industry back in the hands of traditional capitalist owner-managers, instead of unmotivated corporate bureaucrats. They can claim, with some justification, that the financial incentives and risks of monetary loss created by high leverage are focusing unprecedented attention on the efficient use of assets and improving the allocation of resources in the economy as a whole.

These managerial arguments beg a lot of unanswerable questions about economies of scale, tensions between long-range and short-term planning and the fiduciary relationships between managements and the shareholders they serve. But one feature of the buyout movement is almost beyond dispute.

LBOs are filling the US corporate landscape with hundreds of flimsy and weirdly shaped financial structures. The new owner-managers may be working flat out to rebuild their financial foundations – by selling assets, improving operating profits and paying off borrowings. But many of these towers of debt could crumble if any economic tremors hit them within the next year or two.

Indeed, financial danger is the very essence of the LBO. Like virtually every other means of generating huge profits from small initial investments, buyouts depend for their appeal on leverage – the ability to buy assets with other people's money in the hope that their price will go up.

But it is not managerial motivation and inspired cost-cutting that generate returns like Mr John Kluge's $2.5bn personal profit on a $150m investment he made in Metromedia for just two years. Mr Kluge was able to multiply his stake 16-fold while the value of his company "merely" tripled, for the simple reason that lenders to Metromedia provided 80 per cent of the acquisition financing but enjoyed almost none of the capital gains. Even the much more modest average profits of 50 per cent per annum, which LBO investor groups generally aim for, can be achieved only through the power of leverage.

Top 20 Leveraged Buy-outs

Bid announced	Target company	Investor group	Amount $ billion	Status
16/10/85	Beatrice Companies	Kohlberg Kravis Roberts	6.2	Completed
27/07/86	Safeway Stores	Kohlberg Kravis Roberts	5.7	Completed
12/04/87	Borg-Warner	Merrill Lynch	4.2	Completed
03/07/87	Southland	Salomon Bros & Goldman Sachs	4.0	Completed
02/02/87	Viscom International	National Amusements	3.9	Completed
07/03/88	Montgomery Ward	G E Capital & Kidder Peabody	3.8	Completed
21/10/85	R H Macy	Goldman Sachs	3.7	Completed
11/12/86	Owens-Illinois	Kohlberg Kravis Roberts	3.6	Completed
22/06/88	Fort Howard Paper	Morgan Stanley	3.6	Pending
15/09/88	Hospital Corp of America	Morgan Guaranty Trust	3.3	Pending
21/05/84	Esmark	Beatrice Foods	2.7	Completed
19/08/88	Wickes Companies	Drexel Burnham Lambert	2.7	Pending
21/05/87	Burlington Industries	Morgan Stanley	2.6	Completed
17/03/88	American Standard	Kelso	2.5	Completed
22/04/85	Storer Communications	Kohlberg Kravis Roberts	2.5	Completed
16/07/87	Jim Walter	Kohlberg Kravis Roberts	2.4	Completed
17/12/87	Lear Siegler	Forstmann Little	2.1	Completed
10/03/88	Colt Industries	Morgan Stanley	2.0	Completed
22/04/87	Supermarkets General	Merrill Lynch	1.9	Completed
27/06/86	Fruehauf	Merrill Lynch	1.8	Completed

Source: IDD Information Services

LBOs are filling the US corporate landscape with flimsy, weirdly shaped financial structures

As Mr Martin Dubilier, head of Clayton & Dubilier, which bought the Kendall health care group from Colgate for $1bn, notes: "We have an outstanding record of managing our acquisitions. We're selling one now where we tripled earnings in five years and we expect a similar performance in the future. But the leverage and the return on equity goes down as the value of our investment in a company increases. Leverage is what it's all about. The only reason for the kind of returns you get in a successful LBO is because it is a leveraged market."

Indeed, while LBO boosters do not like to admit this, debt-equity ratios of 10-1 or so, commonplace in buyouts, mean no managerial miracles are needed for equity investors to be rewarded with seemingly extraordinary profits.

Unfortunately, leverage has an appalling way of making losses spin out of control on the way down, just as it sensationally magnifies rewards on the way up – a lesson which seems to be learned independently by each successive generation of financial alchemists as they discover the philosopher's stone of instant riches in other leveraged investments from office properties to oil tankers to futures contracts. In this respect, buying companies with borrowed money in LBOs is no different from buying silver contracts or shipping fleets.

And as has so often happened when property booms and other leveraged investment fads have collapsed in the past, lenders could find themselves dragged down with equity holders. The equity cushion which normally protects bondholders and even banks is so thin in many of these deals that lenders may in effect be taking equity-style risks in return for mere moneylenders' shares in the profits.

If this is true, then the extraordinary profits from LBOs are due not only to the efficiency of managers but also to the inefficiency of financial markets in calculating the true investment risks of LBOs. It would be easy to imagine a rash of leveraged company failures during the next recession causing just as much economic dislocation as the property bust in Texas or the debt crisis in the Third World.

Ironically, the stock market crash last October temporarily appeased some of these fears about LBOs. Leveraged buyouts came to an abrupt halt, providing considerable reassurance because the risks of failure decline rapidly during the first few years of any given LBO.

"Any LBO that has survived three years is pretty safe because we make them pay back so much debt during the first few years of operation," says Mr Frank Schott, chief economist of Equitable Life, one of America's biggest LBO investors. Thus, if the pace of buyouts declined substantially from 1987 onwards while the economy continued to expand until 1989 or 1990, there might be little cause to fear widespread failures. By the time the next recession hit, the vast majority of LBOs would be in their "safe" mature phase.

Over the last few months, however, it has become apparent that the appetite for leverage and financial risk among US managers, bankers and investors is still far from satisfied.

The first formal LBO failure – the $1.2bn bankruptcy of Revco Drug Stores in July – apparently did no more to dampen the buyout fever than the earlier problems of companies like Fruehauf, Republic Health and Dart Drug.

All these companies kept out of the bankruptcy courts only as a result of bond exchange offers which involved big losses not only for equity owners but also for holders of junior subordinated debt. Yet yield differences between senior and subordinated debt in the junk bond market have remained minimal, at ¼ to ½ a percentage point.

There is too much money poised to invest in LBOs for there to be any prospect of moderation

Mr Paul Levy of Gilliam, Joseph, Littlejohn and Levy, a New York investment bank which specialises in unravelling troubled buyouts, says: "People just don't seem to take seniority seriously. Whether you own the junior or senior debentures can make the difference between getting repaid and losing your last nickel in a deal that goes bad like Revco. But the market just doesn't care."

Two of the latest buyout proposals shed some light on this apparent indifference to risk. At one extreme there is the $4.6bn bid for Kroger Stores announced by Wall Street's LBO kings, Kohlberg Kravis Roberts.

This seemingly unsolicited offer, which raises the possibility that KKR may now be on the verge of initiating hostile takeovers for the first time, suggests one all-important reason why the pace of LBOs will probably intensify, instead of slowing, even as the next recession draws nearer. There is simply too much money poised to invest in LBOs for any moderation to be in prospect.

KKR alone has assembled over $5bn of equity to invest in LBOs, while Forstmann Little, the next biggest LBO sponsor, has around $2.5bn. In all, there is more than $25bn already lined up by Wall Street for equity investment in LBOs. With a gearing ratio of 10 to one this translates into a potential $250bn worth of deals – and KKR's increasing aggressiveness suggests this money is beginning to burn holes in some of the would-be investors' pockets.

At the other end of the spectrum from the KKR-Kroger offer is last week's entirely voluntary releveraging of Playtex, the women's underwear manufacturer. Playtex has already passed through two LBOs in three years, the first in April 1986 as part of the Beatrice Foods group, the second a few months later when it was bought by management from Beatrice.

The purpose of the latest $1.2bn Playtex deal is simple: to cash in the immense profits from the last buyout. By loading up the company with an additional $400m debt, this LBO will offer equity investors from the previous buyout a gain of $500m on their initial outlay of only $10m. It will also allow the chairman, Mr Joel Smilow, to realise a personal profit of $70m and simultaneously increase his equity stake in the firm. Mr Smilow is refreshingly candid about his motivation. Playtex profits have grown beyond expectations and "it is time to leverage up that excess cash flow."

The Playtex releveraging is the latest and biggest in a new round of "second generation" buyouts of companies which have begun to pay off the debts of their initial LBOs.

Such second-round buyouts, which started with the leveraged bid for Federated Stores by Macy's and continued with the controversial $700m releveraging by Colt Industries in March, suggest that neither business success nor managerial self-restraint may set any limits on the logic of ever-higher borrowing.

A major indicator on this score will be the future of Beatrice itself. Beatrice, which still holds the record for the largest LBO ever, has managed to repay most of its $6bn acquisition debt through asset sales over the past two years. However, the company has failed to sell the rump of its food operations for the expected price of around $3bn. This has left its owners with no cash profits to show for their efforts and the company has made it known that it may soon pay a special dividend to shareholders, financed by substantial new borrowings. A similar $700m releveraging by Colt Industries in March initially provoked strong protests from bondholders, but was eventually accepted.

Should shareholders of Beatrice, which is controlled by KKR and financed by Drexel Burnham Lambert, decide to cash in their profits by raising extra debt, an open season could be declared for further releveragings of successful LBOs.

If LBOs which operate successfully for a year or two routinely start taking on new debt to gear up their owners' profits, there can be little hope of a gradual deleveraging of US corporate finances. The fad for leveraging would then have only one logical conclusion: the full-blown sequence of recession, bankruptcy and financial catharsis.

OBSERVER

Unfair to ACLU

■ Anyone who tried to follow the Bush-Dukakis television debate may have been left wondering: what is ACLU? Vice President Bush called Dukakis a "card-carrying member" and it was obviously meant to hurt in the way people used to be accused of being a card-carrying member of the Communist Party.

Actually, the American Civil Liberties Union is a nationwide, non-partisan organisation of more than 250,000 members committed to the protection of civil rights and liberties. A group of lawyers and libertarians, including the defence advocate Clarence Darrow, set up the ACLU in 1920 when women did not have the vote and immigrants were frequently deported without due process.

Since then the ACLU has regularly taken up unpopular causes, including the fight against internment of Japanese-Americans in the second world war. It stood up to Senator Joe McCarthy in the early 1950s and was in the forefront of the civil rights struggle for blacks.

Conservatives dislike the ACLU because it was one of the first organisations to come out in favour of impeaching President Nixon after the Watergate scandal; they also disliked its successful efforts in the 1970s to draft and pass laws to monitor the government's foreign and domestic intelligence operations. The ACLU's most recent coup was to help defeat the nomination of a conservative, Judge Robert Bork, to the US Supreme Court last year.

The present head of the organisation is Ira Glasser, a former maths teacher who first joined 20 years ago when it had only 5,000 members. At any one time, the ACLU has some 6,000 law suits going on, including several hundred cases involving sex discrimination, privacy and voting rights. It has come to the defence of Lt-Col Oliver North, the former White House aide who faces criminal charges over his role in the Iran-Contra scandal.

The ACLU argues – and North agrees – that his Fifth Amendment rights against self-incrimination have been prejudiced by his public testimony to Congress last year. North, incidentally, is a "card-carrying conservative".

Not funny

■ It cannot be much fun editing Punch these days. David Taylor took over the chair in January and has now resigned "by mutual agreement" with the parent company, United Newspapers. Alan Coren, the previous editor, was eased out last year, but then re-appeared as editor of The Listener after the more obviously qualified candidates for the job had been turned down.

Please call

■ The University of Bologna, the world's oldest, is about to celebrate its 900th anniversary. One of the special projects to mark the event is a study of the present professional status and activities of the 8,000 or so alumni from 95 countries who graduated from Bologna in the period 1945/88. Unfortunately not all of them have remained in contact. So would anyone who wants to be included in the project please get in touch with the Rector: Fabio Roversi Monaco.

US at last

■ AL is finally to become US. If that sounds cryptic, it is because IATA (the International Air Transport Association) allows only two letters to designate airlines and it is not easy to get the two you want.

The designation US has long been held by the US Air Force Military Airlift Command (MAC). When the Allegheny airline changed its name to USAir in 1979, it chose to stay as AL. Last year USAir merged with Pacific Southwest (PS) and took over Piedmont Airlines (PI), so it made a push for the letters US.

The military were cooperative, provided that their own flights could be designated in future MC (for Military Charter). The MC code, however, was held by Transtar, formerly Muse Air. Transtar was happy to give up MC in order to be known as TS. The snag was that IATA had assigned TS to a single carrier airline, Transport Aerien du Benin. The West African company then ceased operations, so TS was available. Shortly afterwards Transtar also ceased to operate, so MC was available as well.

The result is that from October 1 the air force flights will be known as MC, and the USAir flights as US. The story is told by Edwin I Colodny, chairman and president of the USAir Group, in the current issue of the company's in-flight magazine.

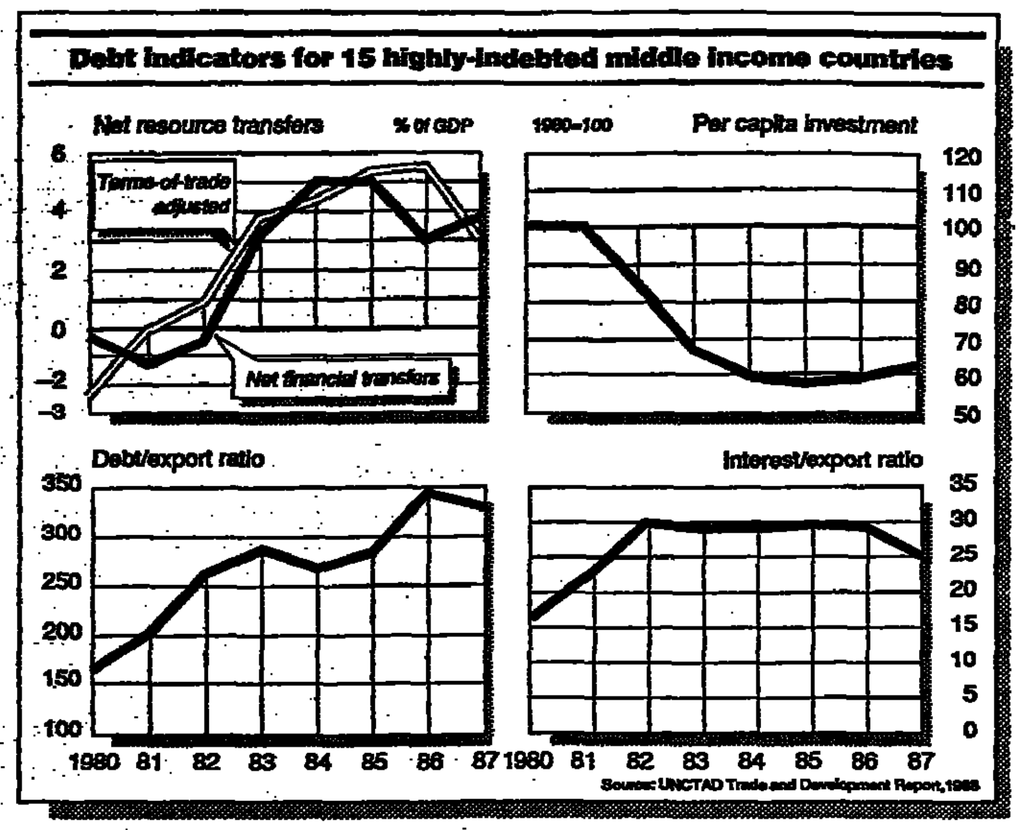
Thatcher's form

■ Back from her trip to the continent, Margaret Thatcher is in confident mood and is adapting a line from the Bush-Dukakis debate as a new riposte to her critics. "I'll take all the blame for the bad things, if you give me half the credit for the good things," she said in a notably successful speech to the Newspaper Press Fund on Monday. The line comes from Bush, of course.

Poor old cow

■ Sun Alliance is introducing a new insurance magazine called First Choice. The pilot issue includes a number of quotes from claims forms: for example, the case of the cow which escaped and damaged a car. The claimant described the cow's temperament as "idyllic – I only wish my wife and daughters were as placid", and said it escaped by "holding head in air and placing one hoof in front of the other in a continual and ever-increasing process." Then he added: "I seriously believe that our in-calf heifers, due to hormonal changes during pregnancy, added to the fact that some of their half-sisters have been exported to France, have developed a warped sense of justice and are hell bent on engaging in combat with French made cars."

There are also one liners: "I knocked over a man, but he admitted it was his fault as he had been knocked over before."



Source: UNCTAD Trade and Development Report, 1988

The spectre at the Berlin feast

Martin Wolf examines the predicament of deeply indebted countries and their limited options

Six years from the onset of the "debt crisis", the principal debtors are still running to stand still. Being pretty unfit to start off with, it is little wonder that the best are showing severe fatigue, while the worst are dropping out of the race.

In 1986 and 1987, nine Latin American countries (Brazil, Bolivia, Costa Rica, Dominican Republic, Ecuador, Guyana, Nicaragua, Paraguay and Peru) as well as the Ivory Coast, Nigeria and several smaller African countries accumulated arrears on payment of interest to private creditors.

When the problem first erupted in August 1982 many thought it would involve no more than a temporary interruption of liquidity. Few can still suffer from this illusion. It turned out to be more manageable than expected in the short term, but more severe than feared in the long term.

The adjustment since 1982 has been concentrated on the external accounts of the indebted countries. The World Bank calls 17 countries "highly indebted": Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, *Ivory Coast, Ecuador,* Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia. Their total outstanding debt at the end of 1987 was \$485bn. They enjoyed an aggregate net inflow of resources of \$65bn between 1978 and 1982, only to suffer a net outflow of \$100bn between 1983 and 1987. The speed and scale of this turnaround has strengthened the creditors against the consequences of default while impairing the capacity of the debtors to avoid it.

UNCTAD's Trade and Development Report of 1988 puts the external adjustment of the highly indebted countries (more precisely, the "Baker 15", the countries listed above, less Costa Rica and Jamaica) in its domestic context. As shown in the chart, the net transfer (current account balance less net interest payments) from these countries moved from an inflow equal to 1 per cent of gross domestic product to an outflow of 5 per cent of GDP in the space of only two years.

What has made the transfer more painful is the manner in which it has been achieved. Since 1980 the volume of exports from the highly indebted developing countries has changed very little, while the volume of imports fell by more than 30 per cent between 1981 and 1983, only to fall still *further by 1987, to a level some* 40 per cent below that at the beginning of the decade. Import compression on this scale has its domestic counterpart in the reduction of investment, as the chart shows.

The severe decline in investment has been the natural response to the decline in both real output and income. In 1987 output per head in the highly indebted developing countries was still 4 per cent below the 1980 level. The deterioration in the terms of trade, the relative price of exports and imports, has made the fall in real income even more serious than in output. The terms of trade of these countries fell to 25 per cent below the 1980 level by 1986. Income per head (adjusted for terms of trade changes) *fell by 10 per cent* between 1980 and 1983, before stabilising and then recovering slightly in 1987.

An indication of the inefficiency of the adjustment process has been the inability to curb inflation. The failure to control fiscal deficits (far from surprising in stagnant economies) has undermined two ambitious currency reform programmes, the widely-heralded "heterodox shocks" in Argentina and Brazil.

In short, the price of external adjustment has been stagnation. According to information provided in the World Bank's World Debt Tables, 1988, only three highly indebted developing countries (Brazil, Colombia and Morocco) managed positive growth of consumption per head between 1980 and 1987.

It is the unfavourable external environment that has made the problem so severe. This has two aspects: the decline in commodity prices and the high nominal and real interest rates on borrowing abroad.

One definition of the real rate of interest is the nominal interest rate deflated by the price of exports. The World Bank report shows that, thus defined, the real rate of interest for the developing countries has been well above 10 per cent in every year since 1981, except 1987 (largely because of the recovery of commodity prices in that year). With these rates even a huge adjustment of the external accounts has been insufficient to stabilise the ratios of debt to exports, as the chart shows. The ratio of debt to gross national product for the highly indebted countries has also risen, but by less.

Developing countries have, *indeed, been running to stand* still. Is there any reasonable prospect then that they will be able to grow back to creditworthiness?

Nominal rates of interest have fallen by comparison with the early 1980s, commodity prices recovered both *last* year and this, while arrears on interest payments accumulated. As is shown in the chart, the ratio of *interest to exports* stabilised after 1982 and fell somewhat in 1987. The issue for the future is the scale of the resource *transfer from* indebted countries consistent with improving debt profiles. This depends, in turn, on the future relationship between the market rate of interest, on the one hand, and the growth of GNP and exports, on the other. If there were a permanent improvement in these relationships then, at last, the problem might go away.

Rapid growth of real GDP and exports will surely be constrained for some time by low levels of past investment. Rapid growth of *nominal* exports would be helped, however, by a continued recovery of commodity prices. The likelihood of that is, however, adversely related to the prospects for interest rates. The main threat to the present buoyancy of output in the industrial economies is a steep rise in inflation. The sort of recovery in commodity prices that would help the indebted countries would also threaten a rise in industrial country inflation. The reaction would be tighter monetary policy and higher interest rates.

In short, under plausible assumptions a significant improvement in debt profiles would involve continuing negative transfers from the indebted countries. While a country can almost always pay its debts, it is difficult to believe that many will be willing to pay the price.

It is this depressing prognosis that makes forgiveness of debt (in covert and overt forms) increasingly likely. The danger is that the process will be disorderly, with the worst performers dropping out first.

There are at least two respects *in which things* have changed for the better since 1982: the strengthening of the balance sheets of the main commercial banks and the awareness in many indebted countries of the mistakes that need to be avoided in future. These two should be married, by exploiting the greater strength of the banks to reward those who have made decisive policy changes. For that, official involvement and probably some official resources will be required. The spectre at the annual feast of the IMF and World Bank is unlikely to vanish of its own accord. The meetings will prove productive if the policy makers and financiers there convened decide, instead, on exorcism.

The Royal Opera House

Plans that fall sadly short of glory

By Hugh Jenkins

Next month, the Appeal Court is expected to rule whether or not London's Royal Opera House in Covent Garden can proceed with the £100m redevelopment scheme it proposes to help fund its modernisation and which has been opposed through the courts by the Covent Garden Community Association.

I recall being rather pleased when more than a dozen years ago the Labour Government, in which I was Minister for the Arts, handed over to the Arts Council the land adjacent to the Opera House which is now the subject of such controversy.

The idea was that, when the money was available, the Royal Opera House should be rebuilt and here was the space to achieve it. Here splendour could be created in harmony with many pleasant existing buildings, Georgian and later. There would be room for the ROH to live as grandly as a great opera house should live.

At that time the land was worth around £3m and I was a little worried to learn some years later that the Arts Council had relinquished control to the Royal Opera House. But it did not occur to me that financial considerations would be allowed to force the ROH to adopt a course of action which the Governors would surely have thrown out had it not been presented to them as monetarily imperative.

In 1975, it did not cross our minds that the land we were presenting would be used as a means of making up for inadequate capital input by a future government.

As Miss Dulcie Gray has pointed out in The Times recently, the current proposals appear to run against almost everything in the Covent Garden Plan drawn up by the now defunct Greater London Council in the 1970s. Instead of restraining office development, the proposals seem to be based upon it; instead of restricting traffic, the proposed Car Park must encourage it; instead of preserving architectural heritage, the application entails demolition of good old houses, to say nothing of the fate of the Floral Hall, the remains of which may well end up on the scrap heap.

And for what? To permit the building of shops and offices. And why? To generate capital and income. For what purpose? To relieve the government of increasing financial demands of a kind hitherto seen by previous administrations, irrespective of party, as essentially forming part of the responsibility of the state.

In sum, large parts of the site are to be demolished to raise money for improvements to the Opera House which even then will fall sadly short of glory and will be hemmed in by the consequences of its incestuous funding.

The Theatres Trust made this precise point when it first looked at the plans in 1986. The Trust is a statutory body charged with the protection of theatres. It has to be consulted by planning authorities before they determine any application for planning permission on a site where there is a theatre.

The Trust believes the whole scheme must be judged by its success or failure in providing an Opera House of world class which will satisfy the technical and artistic requirements of the next century. From this point of view the Trust has expressed substantial misgivings.

The requirement to give over so much of the gained land to lettable space left the Opera House (the Trust has said) with a three dimensional Chinese puzzle of space organisation which was bound to produce inadequacies. The restrictions were specially noticeable in the public entrances and foyers which would remain extremely confined. *I would add that this* criticism is particularly ironic when it is recalled that one of the prime aims of the development plan was to provide greater public access.

Competition for space for opera-goers and the requirements of scene "get-in" and storage was seen to be particularly acute in the area at present occupied by Barry's Floral Hall. The centre of this space is to be largely taken up by a double spiral staircase. The Trust pointed out that this means that there will be less dead-storage space than is now provided by the Floral Hall.

When all the objections are added together they lead to the inescapable conclusion that the ROH has allowed itself to be taken past the point at which the benefits of its plan outweigh the disadvantages.

It is hard to agree to a scheme which provides inadequately for the Opera House, includes precious few extra seats for the public (at the last count it is said there were 13, yes 13!) and does substantial environmental damage.

It cannot be denied that the Opera House needs improvement and enlargement. But the cost to the community and to the heritage is too great and the benefit to the Opera House too small to justify support for the present plans.

Even if the Community Association is unsuccessful in its legal challenge to the proposals, that is not necessarily the end of the matter.

It is rumoured that Mr Ridley, Secretary of State for the *Environment, dislikes public* inquiries. Here is one case in which he should use his power to ensure that the pros and cons are heard in the light of day. If not, a future generation might reach the conclusion that in 1988 mean-minded decisions were taken; decisions lacking in vision, unnecessarily constrained by Mammon.

It is my view that the Government should shoulder the whole cost of a new plan, unrestricted by a requirement to build shops and offices *which will take up too much of* the land available and are too close to permit the sense and reality of space which a great *building needs aesthetically* and practically.

Even if that view were to be rejected I believe that re-examination of the proposals would show that values have changed enough to enable the plans to be greatly improved. The income from the land would now be so great as to permit less of it to be sold.

If nothing is done a future generation might well come to the conclusion that in 1988 we were all out of our tiny minds.

Lord Jenkins, arts minister from 1974-1976, is consultant to the Theatres Trust.

LETTERS

The problem lies with demand, not supply

From Professor G. Maynard.

Sir, Although a trade deficit indicates that demand is greater than supply, Mr Neuburger (Letters, September 10) is wrong to suppose that the fault necessarily lies on the side of supply.

There is abundant independent evidence, which need not be rehearsed here, to show that the supply-side performance of the UK economy has greatly improved in recent years. Moreover, Mr Neuburger seems not to have noticed that during the period when the trade deficit has worsened so markedly, the UK's output has been increasing at an exceptionally rapid rate.

Clearly, the problem lies on the side of demand which has been allowed to rise well in excess of any feasible rate of growth of the economy itself.

Mr Neuburger, can, of course, criticise the Government for pursuing a monetary and fiscal policy which has allowed this to happen, but it would be somewhat ingenuous for him to do so, given the fact that he has been a long-time trenchant critic of the Government for pursuing a macro-economic policy that was too restrictive, even during a period when the basis for an improved supply-side performance was clearly lacking.

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Evils of takeovers

From Mr W.B. Fox.

Sir, In "Highlights of the Week" (Weekend FT, September 24/25), you list 14 companies which show significant price changes: four are falls and 10 are rises.

All the rises are due to takeovers or the remains of takeovers. These figures illustrate a development which has been apparent to me for a very long time: that Stock Exchange prices now bear very little relationship to either the present or prospective earning capacity of companies, but a great deal to share price manipulation (which is what takeovers basically are).

Boards of directors are now very little interested in producing goods and services: they are principally occupied in either assessing takeover possibilities or in fighting them off, with the result that the Stock Exchange has become a casino *and its relationship with industry* has become tenuous.

Until boards return to their duty of ensuring that goods and services of high quality are made available for sale at the lowest possible prices, exports will fall away and imports will continue to rocket.

However, the British public's innate common sense is coming to its rescue. Declining Stock Exchange turnover and falling unit trust sales demonstrate that each tiny rally in prices causes more people to "get out", and it will be a long time before they re-enter.

W.B. Fox,
1 Bradley Park Road,
St Marychurch, Devon

Inner cities need genuine partnerships

From Mr P.H. Corby.

Sir, Whilst agreeing with *most of your editorial* "Partnerships in inner cities" (September 23), it should be pointed out that attempts at urban regeneration already taking place in some northern areas.

Through contact with private sector developers and local authorities, the Union of Construction, Allied Trades and Technicians has helped to set up of the Leeds City Development Company – a partnership of the City Council, Mountleigh and Bovis/P&O. We have also set up the idea of "Kirklees as an Engine for Growth."

Both concepts involve a range of development schemes *jointly controlled* by a genuine partnership of the local authority and the private sector.

All concerned believe this is the best method of bringing about urban regeneration and making sure that development and prosperity does not bypass the disenfranchised sections of Leeds and Kirklees. Training for the long-term unemployed can be obtained by incorporating the Government's Employment Training Scheme into the development.

However it is not helpful that the Government passes legislation affecting local authority companies in a way which could inhibit the effectiveness of these initiatives.

We do not need conferences and proclamations, we need people with the finance, land and expertise to rectify the problem. That means a real partnership of the private sector and local government, which unfortunately appears to dissatisfy the Secretary of State for the Environment.

P.H. Corby,
Regional Secretary,
Union of Construction, Allied Trades and Technicians,
64/66 Cross Gates Road, Leeds

BT's quest for quality management

From Mr J.H. Rogerson.

Sir, Your leader on the occasion of the setting up of the European Foundation for Quality Management ("Europe's quest for quality," September 16) made some very valid points.

How sad, therefore, to read on the Management Page three days *later* ("British Telecom: Staking its future on its ability to deliver," September 19) that BT's Director of Quality felt it necessary to go outside *the* UK for training in quality management.

This is ironic at a time when we and other organisations which can provide such training are experiencing an increasing demand for services from overseas.

J.H. Rogerson,
Cranfield Institute of Technology,
Cranfield, Bedford

The police and the Serious Fraud Office are working in harmony

From Detective Chief Superintendent G.J. Squires.

Sir, I am greatly disappointed and concerned that your report (September 21) of my speech to the Police Superintendents' Association Conference in Blackpool (September 20) gave the clear, but unjustified and entirely erroneous, impression of conflict, suspicion and animosity on the part of the police towards the Serious Fraud Office (SFO).

Nothing could be further from the truth.

It is true that my speech recalled the early, critical reactions of some police officers when outline plans for the SFO were first released, some two years ago. However, from that time on there has been a continuous process of close consultation and collaboration between the SFO and the police as to every detail of their forthcoming working relationship.

Contrary to the negative tone of your report, I have no doubts or reservations about the concept of this joint approach, nor about its enormous potential for making a very significant impact on the investigation and prosecution of serious and complex fraud.

From the outset, all negotiations and discussions with the police have been conducted in an atmosphere of harmony and mutual understanding, and nothing I said at Blackpool suggested otherwise.

Police officers and SFO staff have been working jointly on a number of major frauds since April 1988. The efficiency and benefits of this liaison are already plainly apparent.

In addition to this, police officers have willingly and enthusiastically taken part in training programmes arranged for newly-appointed SFO staff, and the close ties already forged will doubtless become stronger after police investigators move into the SFO's new headquarters in a few weeks time.

I did not say – and neither do I believe – that several difficult issues have yet to be resolved. On the contrary: I know of no reason why the partnership between the police and the SFO should not continue to work well and, as I told the conference, I expect it to do so.

G.J. Squires,
Metropolitan & City Police Company Fraud Department,
37 Wood Street, EC2

FINANCIAL TIMES

Wednesday September 28 1988

Dukakis abandons attack on Republican strongholds

By Stewart Fleming in Washington

GOVERNOR Michael Dukakis, the Democratic Presidential candidate, has reportedly begun to narrow down the number of states in which he will campaign, virtually abandoning several in the south and the Rocky Mountain west.

Instead, he is focusing his efforts on key swing states such as California, Texas, Illinois and other mid-western and north-eastern states. These are areas where Democratic candidates have been strongest since the Republican Party broke the Demoncrats' stranglehold on the South in presidential contests in the 1960s.

One Dukakis campaign aide was quoted yesterday as saying that the campaign would begin "pulling back budget and pulling back staff" in states which are judged to be out of reach.

There has already been clear evidence that in spite of his claim to be running a 50 state campaign, Governor Dukakis had begun to focus his efforts more narrowly. Top aides said several weeks ago this was bound to happen eventually.

He has not been to Georgia since the Democratic Convention in July, even though it is one of the southern states which the party still hopes to win. Other southern states such as Florida, Mississippi, Virginia and South Carolina have been off his travel schedule for weeks.

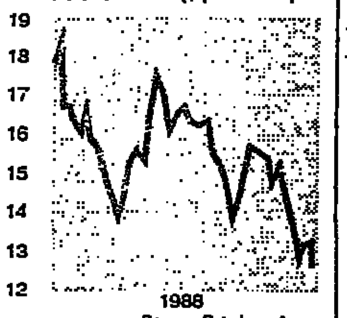
Mr Dukakis has, however, continued to campaign in what is called the "rim South", states such as Kentucky and Tennessee, where the Democrats believe he is competitive.

Democratic candidates have done disastrously in the South in four of the past five Presidential elections. The exception was 1976 when a southerner, Mr Jimmy Carter, was the candidate. Governor Dukakis has also been weak in the region and his prospects have been damaged by Mr Bush's attacks on his patriotism, his defence position and the charges that he is a "liberal" Democrat, outside the national mainstream.

These charges have also hurt Mr Dukakis in traditionally Republican states such as Utah, Idaho and Arizona.

Oil price

Brent Blend Crude ($ per barrel)



Source: Petroleum Argus

Oil prices plunge after Opec fails to act

By Steven Butler in London

OIL PRICES plunged yesterday to a two-year low as markets reacted to the failure of the Organisation of Petroleum Exporting Countries to take immediate shoring-up action.

The five-member Opec price committee adjourned in Madrid on Monday with only a decision to hold a larger meeting of Opec's long-term strategy committee, probably at the end of October.

Brent crude oil for October delivery fell 60.5 cents to $12.66. At the New York Mercantile Exchange, November futures for West Texas Intermediate Crudes were off 30 cents at $13.90 in mid-day trading.

Traders had been looking to the price committee to call an extraordinary meeting of the 13 Opec oil ministers. The failure to call such a meeting indicates that Opec has made little progress on reaching an accord that would trim the cartel's burgeoning output.

Iran and Iraq, in particular, have failed to agree a formula that would bring Iraq back into the quota system. For the past two years, Iraq has refused to accept any quota less than Iran's, at 2.369m barrels a day, and has instead increased output well above this level.

Iran and Iraq have agreed to attend the strategy committee meeting, although a date has not been settled.

Analysts yesterday said that postponement of action would in itself compound the problems of bringing stability back to the market, and some were predicting a further slide of at least several dollars.

They said that current excessive levels of Opec output, at roughly 20m b/d, would likely spoil the market for many months to come. Stock levels in the industrialised world are high and considerable buyer resistance would be encountered should prices rise.

Comrades dream of single market

Leslie Colitt sees Comecon torn between unity and hard currency

AS THE European Community alternately leaps and stumbles towards creation of an integrated internal market by 1992, Comecon looks further than ever from the lofty goal of "a unified market in the long term," proposed at its summit in the summer.

Indeed the Soviet-led trading bloc is finding it hard to keep functioning in its existing form.

The recent drop in the world price of oil, gas and raw materials has exposed fully the weaknesses of Comecon's archaic, barter-like trading system.

Moscow supplies its allies with much-needed fuel commodities at a nominal price which reflects fluctuations in the Western market: in return it receives Eastern European industrial goods.

Lower international prices for raw material have limited the quantity of industrial products that Moscow can accept in return: and the East European states have few other outlets for their manufactures.

Nor does the Soviet Union seem willing to step up deliveries of fuel to its Comecon partners, enabling the flow of industrial products from Eastern Europe to Moscow to continue.

Such deliveries, Moscow says, are uneconomic because of the rising costs of extracting fuels from Siberian fields. In addition, falling earnings from sales of Soviet energy in the West have been made up by increasing oil and gas exports to the West for hard currency.

As Mr Mikhail Gorbachev and his reforming allies in the Communist world express more frankly their desire for closer integration with the Western economic system, it is becoming clearer that many Comecon partners are unenthusiastic about trading with one another: each would rather trade with the West.

Because there is no convertible currency, and barter deals are negotiated on a bilateral basis, there is no advantage to a Communist state in building up a "surplus" with one of its allies. A surplus amounts, in effect, to a loan, or a time-lag in the squaring of accounts, and it cannot be used to buy goods from a third country.

While Western countries approach trade negotiations with a view to securing the right to export, a Comecon nation has a logical interest in exporting as little as possible, and in importing as much as possible, from its partners.

Soviet and East European Comecon specialists believe the prospect of achieving spectacular reforms within Comecon are remote.

Dr Alexander Bykov, deputy head at the Institute of Economics of the World Socialist System in Moscow, formerly worked at Comecon headquarters on Kalinin Prospekt. In a recent interview in Budapest he expressed the prevailing scepticism over the initiative launched at the Comecon summit.

"We say we want some kind of common market," he said. "But when? Perhaps for my children's children." Any attempt to create an "organised" unified market, he commented, was doomed to failure without the reform of each country's price system and eliminating the endemic shortage of consumer goods.

At the Prague summit prime ministers of the reforming group in Comecon pleaded for the introduction of a convertible currency. But both East Germany – which conducts 15 per cent of internal Comecon trade – and Romania were opposed to convertibility and to the goal of achieving world market prices.

Another issue raised in Prague was that of fostering direct links between companies and organisations within Comecon.

"We have direct links but what for?" Dr Bykov remarked. "Of course, it is nice to go to Prague or Budapest and drink brandy and wine. But first we must reform at home."

Before companies in the Soviet Union and Hungary could co-operate, he explained, their prices had to be similar; that is, to reflect real costs.

Comecon's most important task, Dr Bykov said, was to set strategic guidelines and create a mechanism to achieve the free movement of goods, services, labour and capital among its members.

The policy of giving orders from above, he noted, led companies to react to the "rubbish" they got from other Comecon companies by refusing to produce what was wanted of them.

Mr Gerd Biro, director general of the Hungarian Chamber of Commerce, described the vicious circle in which large Hungarian producers who were dependent on the Soviet market were seldom able to produce competitive products for sale in the West.

The situation had come to a head, however, with the latest cuts in Soviet industrial imports

Despite the dependence of Hungarian – and other East European – producers of machinery and equipment on the Soviet market, Moscow was rarely prepared to pay higher prices for improved output.

Mr Biro's proposal for reviving Comecon seemed like simplicity itself.

A portion of Comecon's internal trade, he said, should be based on Western currencies. This would help transform a sellers' market into a buyers' one.

Commission demands duties on products of 'screwdriver' plants

By David Buchan in Brussels

THE EUROPEAN Commission yesterday urged the imposition of anti-dumping duties on photocopiers assembled in the European Community by three Japanese companies at so-called screwdriver plants – those using a high proportion of imported components.

Photocopiers imported directly from Japan have been subject to anti-dumping duties since February last year.

The proposals are likely to be approved soon by the Council of Ministers. They will hit products from Konica, Matsushita, and Toshiba.

This will be the third time the Community has used its controversial screwdriver plant rules, introduced in 1987 and designed to prevent companies circumventing anti-dumping duties by shipping components into the Community for final assembly there.

Japan has protested at the extension earlier this year of anti-dumping duties on electronic typewriters and scales to those products assembled by Japanese companies in the Community.

Mr Muneoki Date, Japan's ambassador to the EC, said yesterday he very much regretted the latest action. It might be one more reason to bring the screwdriver plant issue to a special General Agreement on Tariffs and Trade panel.

The Commission has proposed duties to a level of Ecu225 ($247.5) on each plain paper photocopier assembled by Konica in West Germany, of Ecu192 on each copier made by Matsushita in France and of Ecu28 on each of Toshiba's French-assembled copiers.

The duties vary according to the value of differing copier models and the dumping margins which the Commission claimed to have established when it imposed anti-dumping duties on copiers imported from Japan.Japan has 80 per cent of the Ecu1bn a year Community photocopier market.

The three companies have been penalised because they began their assembly operations in the Community after August 1985, when the EC started its orginal dumping inquiry into Japanese copiers; and because Japanese components represent 94.2 per cent of the final Community-assembled products of Konica, 98.4 per cent of those of Matsushita and 70 per cent of those of Toshiba.

Other Japanese copier makers whose direct imports have been subjected to anti-dumping duties have escaped further penalties on their products assembled in the Community because their use of non-Japanese components has now reached the 40 per cent

Japan has complained that this content requirement infringes GATT rules and is discriminatory. EC companies might import just as many Japanese-made components as a Japanese company, but would not be caught under the screwdriver law.

IMF seeks shift in resources

Continued from Page 1

at a time when the US is taking a backseat role.

Mr Nicholas Brady, the new US Treasury Secretary, has maintained a low profile here in view of the imminent presidential election.

Mr Brady's address yesterday, marking the last IMF speech of a Reagan Administration appointee, represented a marked watering down of the free market crusade urged on the IMF by President Ronald Reagan in 1981.

Mr Brady stressed the need for market-based techniques in contributing to growth in borrowing countries and to reducing indebtedness.

In remarks echoed yesterday by Mr Gerhard Stoltenberg, the West German Finance Minister, Mr Brady also warned against any transfer of debt risks from the private to the public sectors in creditor countries.

Johnson achieves world's fastest fall from grace

Continued from Page 1

"this might be the turning point in our war against drugs. I can't give you a percentage (of athletes using drugs) that is valid. I would only say that we in the sport are in agreement that it's happening at the top levels and it's happening a lot."

Bo Anderberg, head physician of the Swedish Olympic team, said: "For a couple of years now it's been talked about. You look at him, how he looks and how fast he's gotten that way and you can't be anything but suspicious. It's awful but good that they caught him."

An IOC member voiced a widely held view when she said that the vast majority of the 9,600 athletes at the Games were clean and that Johnson's ruination would send out a categoric warning that sport was determined to clear up the drugs mess.

She said she was sure that at the next Olympics, in 1992, there would be no cheating, no tarnished medals and no expulsions and that the Games would celebrate only athletic excellence.

But there can be no guarantees. Worse, there is absolutely no way to assess the extent of scandal. No one, anywhere, has the remotest clue how many athletes are on drugs or which drugs they are using. And so far, sports authorities have been tardy and lackadaisical about fighting the menace.

There have been persistent calls for random spot checks and for automatic life disqualifications for all athletes found using drugs.

Ben Johnson was expelled from the Seoul Olympics for taking an anabolic steroid called Stanozolol.

Steroids, which can be traced for up to several months after they enter the system, help muscle building and tissue repair but can also cause liver cancer, kidney ailments, sexual dysfunction, aggression and death.

However, athletes like Johnson undoubtedly expect to stop using banned substances well before undergoing a test, or to clear their systems through use of masking agents.

Some predict that within 30 years, scientists will eliminate the harmful side-effects of the drugs that athletes wish to use, and that most athletes of the future will employ drugs openly, such are the rewards of big-time athletics..

If that is true then the present drugs mess is a transitional stage.

When Johnson and reigning Olympic champion Carl Lewis of the US raced over 100m in Zurich last month, they reportedly received $250,000 each. Both are millionaires.

But Lewis, the man beaten into second place by Johnson in the Olympic 100 metres last Saturday, is not a cheat. So far as anyone knows, Lewis is clean. As a result, he collects the 100 metres gold medal while Britain's Linford Christie is promoted from bronze to silver.

Yet Johnson is expected to retain his 1987 world record. He is still the fastest man in the world. It really is a mess.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	24	75	Dubrovnik	S	26	79	Malta	S	25	77	Rhodes	S	30	86
Algiers	S	27	81	Edinburgh	F	16	61	Manchester	C	15	59	Rio de Jo	F	35	95
Amsterdam	C	17	63	Faro	S	30	86	Manila	F	32	90	Rome	S	30	86
Athens	S	27	81	Florence	S	25	77	Melbourne	C	19	66	Salzburg	S	21	70
Bahrain	S	35	95	Frankfurt	F	20	68	Mexico City	F	27	81	San Francisco	S	22	72
Bangkok	F	34	93	Funchal	S	24	75	Miami	C	29	85	Seoul	F	24	75
Barcelona	S	25	77	Geneva	F	22	72	Milan	–	–	–	Singapore	C	31	88
Beirut	F	30	86	Gibraltar	S	25	77	Montreal	C	17	63	Stockholm	F	14	57
Belfast	S	16	61	Glasgow	R	15	59	Moscow	C	13	55	Strasbourg	S	23	73
Belgrade	C	17	63	Guernsey	R	15	59	Munich	S	22	72	Sydney	S	18	66
Berlin	C	17	63	Helsinki	F	14	57	Nairobi	C	21	70	Taipei	C	25	77
Biarritz	C	19	66	H. Kong	C	26	79	Naples	S	26	79	Tangier	S	30	86
Bombay	R	27	81	Innsbruck	S	22	72	Nassau	F	31	87	Tel Aviv	S	29	84
Bordeaux	S	27	81	Inverness	S	16	61	New Delhi	C	35	95	Tenerife	S	26	79
Brussels	C	20	68	Islamabad	F	34	93	New York	F	26	78	Tokyo	R	21	70
Bucharest	S	23	73	Istanbul	F	25	77	Nice	S	22	72	Toronto	C	18	64
B. Aires	C	17	62	Jakarta	C	34	93	Nicosia	R	30	86	Tunis	C	25	77
Cairo	C	30	86	Jersey	C	16	61	Oporto	S	27	81	Valencia	S	27	81
Cape Town	S	17	63	Jo'burg	F	23	73	Oslo	F	15	59	Venice	–	–	–
Caracas	F	27	81	Lima	C	18	66	Paris	F	23	73	Vienna	S	22	72
Casablanca	S	26	79	Lisbon	F	32	90	Peking	F	25	77	Warsaw	C	17	63
Chicago	C	26	78	London	C	18	64	Prague	S	19	66	Washington	S	14	57
Cologne	F	21	70	Los Angeles	F	31	88	Reykjavik	F	03	37	Zurich	S	21	70
Copenhagen	F	17	63	Luxembourg	C	18	64								
Corfu	S	29	82	Madrid	S	26	82								
Dallas	F	17	63	Majorca	S	26	79								
Dublin	F	17	63	Malaga	S	27	81								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Paris push for monetary stability

Continued from Page 1

that the Fund would explore ways in which the Special Drawing Right (SDR) might provide an anchor for an international exchange rate system.

Officials yesterday were cautioning against expectations of any early move to a new international monetary system but they acknowledged growing momentum towards closer management of exchange rates and economic policy co-ordination.

Mr Satoshi Sumita, the governor of the Bank of Japan, said that moves to diversify the foreign exchange reserves of central banks might be the first step towards more binding restrictions on exchange rate fluctuations. In that context Japan was removing the barriers to greater use of the yen as a reserve asset.

More far-reaching French proposals for a switch to a a system of reference zones for the major currencies are not regarded as practicable in the forseeable future. Mr Gerhard Stoltenberg, West Germany's Finance Minister, commented yesterday that most governments agreed that the present floating rate system should be improved rather than abandoned.

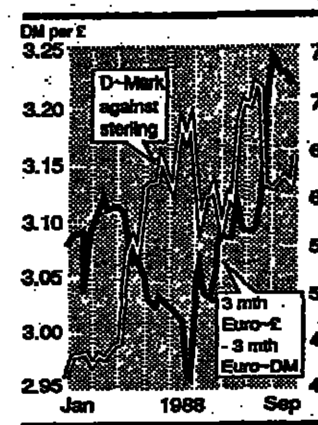
But the monetary officials said that the G-7 nations were reviewing ways to introduce greater discipline into their private arrangements for stabilising the main currencies.

At present, the Group is operating within a framework of wide zones for the dollar, D-Mark and yen, with a gap between the floor and ceiling of each currency of at least 15 per cent.

THE LEX COLUMN

Skilful spadework from Mr Lawson

The UK authorities have been remarkably successful in stage managing the publication of a really terrible set of August trade figures. All those ominous official warnings about the dangers of expecting an early improvement in a record UK trade deficit have had the desired effect, and the reaction of the financial markets to the second worst current account deficit on record must have made even the Chancellor of the Exchequer faintly embarrassed. Admittedly, it has relieved any immediate pressure on both sterling and UK interest rates, but there is no way that a current account deficit which has been averaging £1.4bn a month since late spring, can be regarded as anything but a serious cause for concern.



The most comforting explanation would be that the sheer scale of the deficit is simply a reflection of the excessive demand inside the UK economy and does not indicate any serious lack of competitiveness. Over the last three months import volumes have risen three times as quickly as export volumes. But at least exports are still moving ahead, and the hope must be that as consumer demand is choked off by 12 per cent base rates, export growth will quickly repair the hole in the deficit.

However, this is probably over-optimistic. The 1988 current account deficit is likely to be more than three times the £4bn which was being forecast only a few months ago, and the outlook for next year is equally grim. The UK has plenty of foreign exchange reserves and an interest rate structure which will underpin sterling in the near term. But longer-term questions persist about the acceleration in inflation and the pace of UK wage settlements; and this could make yesterday's bullish reaction in the gilt-edged and foreign exchange markets look excessive. Meanwhile, the main question for equities remains whether the excess demand in the UK economy can be removed without precipitating a nasty recession next year. The odds are that it can, but they are shortening.

Next

Having witnessed Sir Ralph Halpern, Sir Phil Harris and Sir Terence Conran each fall from on high, the market needs no more than a wobble from Mr George Davies before anticipating a similarly nasty fall. Even before yesterday's bad results the shares had fallen by a third, and the unequivocal 18p fall that greeted the 10 per cent drop in earnings shows that the great Next vision is no longer thought to be a special case.

While yesterday's figures were a bundle of disappointments, they do not actually prove the Next strategy to have failed – at least, not yet. Strong volume growth in Next stores, good progress from mail order and the mighty launch of the Next Directory are genuine achievements in a difficult market. The real problems start below the operating profits line: in particular, a monstrous interest charge to cover the cost of converting the old CES stores into a tasteful Next family, and a distressfully large provision against last year's convertible Eurobond.

While Next should have warned the City earlier about its provision, to rerate it now for its belief pre-crash that a put option would cut its borrowing costs would seem harsh. After all, the company has done the decent thing in providing fully – which will make it hard for the others who issued similar bonds to get away with anything less.

Meanwhile the company's giddy rate of expansion is much more alarming. It has reached the top of its capital investment cycle just as the squeeze on consumers tightens, and in the process has geared itself up to 125 per cent. These results may not prove that Next has over-extended itself financially, but as they do not prove the contary, frightened investors cannot be expected to give Next special treatment until they have overwhelming reason to do so.

Jefferson Smurfit

Jefferson Smurfit's businesses may be only as strong as the world economy as a whole. But that fact is certainly doing the group no harm at the moment; and while Smurfit's dependence on the economic cycle must begin to work against it at some point, it is difficult to see that moment arriving within the next 18 months. With operating margins in the US rising 58 per cent in the first half of this year, to 12.5 per cent, there can be little doubt that Smurfit is doing very well packaging the American economic boom. US demand looks unlikely to fail the group in the near future; and with little unwelcome capacity coming on stream soon, it may be some time before the consumer gets fed up with being asked to pay ever more for Smurfit's product.

But if Smurfit shareholders can thank America for much of the group's 53 per cent increase in half year earnings per share, they should also welcome moves to reduce the group's overwhelming reliance on US earnings. While US acquisitions are likely to continue to prove the cheapest pickings, Smurfit has little choice but to diversify geographically. Continental Europe is the obvious target; and though exit p/e's are higher there and suitable businesses more difficult to find, the market seems to be putting its faith in Smurfit to do its usual tight sort of deal in a market whose fragmentation must leave much room for improvement.

Elders IXL

As one of Australia's premier international companies, Elders IXL's decision to disclose a little more information about its businesses is long overdue. By splitting out the A$236m it earned from reshuffling the various bits of its empire, and focusing attention on the sharp jump in the pre-interest profits of its brewing business – to A$657m – Elders has highlighted the substantial growth of its core businesses in 1987-88. Against this background a multiple of 10.7 times historic earnings does not look over-demanding and the balance sheet looks much healthier, all of which suggests that Elders may be preparing itself for another major corporate move. However, Elders' acquisition of a token stake in Anheuser-Busch says more about its dreams than its realistic corporate ambitions.

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday September 28 1988

INSIDE

There is no gain without pain

Consolidate or suffer is the message being driven home to Canadian resources companies. Lower gold and oil prices, higher interest rates, a strong Canadian dollar and difficulties with post-crash equity financing have combined to erode profits and restrict capital. In a bid to build companies powerful enough to compete with US rivals in an increasingly integrated market place, larger, cash-rich Canadian groups have begun to snap up their troubled and becalmed juniors. The trend is accelerating, reports David Owen. **Page 26**

Red hot days for Gorbachev

Scorching temperatures have brought drought to the Soviet Union and devastated high hopes for a bumper grain harvest. But it is not just farmers who look set to suffer. A crop shortfall will be a nasty setback for Mr Mikhail Gorbachev, the Soviet leader. He faces an angry political backlash over the paucity of food supplies in the shops and, because falling oil prices have squeezed export earnings, can ill afford the foreign exchange needed to top up the country's food deficit. **Page 44**

Paris fulfills autumnal promise

Buoyed by unexpectedly strong corporate earnings, the Paris stock market has clawed its way back from the depths of last October's crash. Government moves to cut corporation tax have also helped the tone of bourse trading while recent takeover speculation has spotlighted some household names. The final piece of good news appears to be the reappearance of formerly cautious Japanese investors. Paul Betts reports. **Page 48**

ABN faces 1992 conundrum

ABN

Mr Robertus Hazelhoff, chairman of the unabashedly old-fashioned Algemene Bank Nederland has a conundrum to solve: how to expand ABN internationally without giving ground in the bank's home market. Stressing a policy of balanced geographical and product growth, he sees no reason for ABN to join the merger mania as Europe moves towards the single market of 1992. Instead he is hoping the bank is big enough to face the future alone. **Page 28**

German bankers at odds

Sparks are flying in the rarified atmosphere of West Germany's banking parlours. Hints by Mr Alfred Herrhausen, chief executive of the Deutsche Bank, of some limited form of debt forgiveness for the poorest third world nations, has provoked a storm of criticism. Mr Walter Seipp, chief executive of Commerzbank, goes so far as to argue that forgiveness would begin a process "which would erode the grounds on which our civilisation is based." **Page 29**

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)			
Falls			
Bayer Hypo.	364	−	7
Thyssen	159	−	3
Bayer Ver.	356.5	−	6.5
NEW YORK ($)			
Rises			
Crystal Brands	23¼	+	1½
Clark Cons.	20	+	2⅞
Macmillan	88½	+	1½
Falls			
Comp.Horizons	7¾	−	1⅞
Anheuser-Busch	31¾	−	¼
Regina	4	−	3
PARIS (FFr)			
Rises			
Sogerap	270	+	12
Bouygues	497	+	21
Epeda Bar.	875	+	25
Falls			
TRT	1010	−	59
CGIP	1215	−	43
TOKYO (Yen)			
Rises			
Mitsubishi Oil	1380	+	170
Akebono Brke	755	+	76
Kinki Nippon	1230	+	120
Osaka Cement	810	+	70
Falls			
Nippon Kokan	843	−	102
Takasaki Pap	858	−	100

LONDON (Pence)			
Rises			
A.C.Hldgs.	78	+	15
BOC	420½	+	10½
Bass	775	+	10
Berisford (S&W)	384	+	7
Brit. Telecom.	242	+	7½
Cable & Wire.	385	+	6
Christies Intl.	541	+	9
Gr'nall Whitley	241	+	8
Jaguar	245	+	5
Land Securities	555½	+	7½
Lucas Inds.	578	+	11
Neill (Jas.)	231	+	30
Parker Knoll A	905	+	35
Pearl	482	+	6
P & O Defd.	573	+	13
RMC	480	+	14
Rank Org.	690	+	15
Royal Ins.	385	+	9
Sun Life	£10¼	+	¼
Ward White	296	+	10
Falls			
Dee Corp.	171½	−	4½
FII Group	185	−	10
Londo	337	−	8
Next	182	−	18

Macmillan thwarts Maxwell bid

By Roderick Oram in New York

MACMILLAN, the US publishing house, once again thwarted the efforts of Mr Robert Maxwell, the British publisher, to make a major US acquisition by accepting yesterday an improved offer from *Kohlberg Kravis Roberts*, the New York leveraged-buyout specialist.

Its board chose KKR's bid of $90.05 a share in cash and paper, worth $2.6bn in total, over Mr Maxwell's $89 a share in cash.

Macmillan had asked for best and final offers from the two parties in an effort to end the three-month auction for control of the leading book publisher.

While there is no legal bar to Mr Maxwell pursuing a hostile tender offer at an even higher price, his advisers in New York and London would give no immediate indication of his next move. Macmillan's share price rose only $1½ to close at $88⅝, indicating that Wall Street was sceptical that Mr Maxwell would pursue the high stakes game.

The fight for control of Macmillan began in June when a group of investors led by Mr Robert Bass, a wealthy Texan, offered $64 a share.

Management responded with their own plans for a restructuring and recapitalisation, which would have increased their ownership of the company while paying shareholders a large special dividend.

Mr Maxwell entered the fray determined to win control of a major US publisher.

Macmillan's management was, however, understood to be unhappy about the prospect of losing its independence to Mr Maxwell.

They readily accepted instead an $85 a share offer from KKR, New York pioneers of leveraged buyouts. The management will participate in the KKR deal.

Mr Maxwell managed to kill the deal by raising his offer last week and raised it again on Monday evening to $89, hoping for a knockout blow.

KKR responded, however, with a complex cash and paper proposal designed to wring the highest practical price for shareholders.

Analysts consider that KKR, or Mr Maxwell if he tries yet another counter bid, will have difficulty justifying a price much higher than $90 a share.

Mr Maxwell made his last bid after his advisers were finally able to review financial information from Macmillan.

The publisher had rejected earlier requests for the data but was forced by a Delaware court to hand them over on Sunday.

Mr Maxwell's advisers had argued in court that the company had shown "extreme favouritism" towards the earlier buyout offer from KKR and Macmillan's management.

However, the court rejected the advisers' request that Macmillan be forced to disclose the procedures by which it reviewed the takeover proposals.

In 1987 Macmillan had revenues of $956m and net profits of $70.7m.

Nearly half of its revenues, and 40 per cent of operating profits, derived from publishing, with information services contributing 24 per cent of sales and 39 per cent of profits.

Raymond Snoddy in London writes: Mr Maxwell has made a number of successful acquisitions of printing companies in the US and now claims to be the second largest American contract printer but success in his quest for a complementary publishing business continues to elude him.

Robert Maxwell: $89 per share offer spurned

Last December, Maxwell Communication Corporation dropped its plans to acquire more than 50 per cent of Bell and Howell and earlier there was the bitter attempt to take over Harcourt Brace Jovanovich, ultimately blocked by a $3bn defensive recapitalisation.

Olivetti first-half profits fall 24%

By John Wyles in Rome

OLIVETTI, the Italian business electronics group, yesterday reported a 24 per cent drop in first half pre-tax profits despite a 16 per cent increase in sales which the company claimed reflected a rise in market shares.

The results, which follow a 29 per cent drop in 1987 profits, are likely to raise anxieties about the company's direction which Mr Carlo De Benedetti, chairman, will seek to allay tomorrow when he is expected to announce details of a major corporate reorganisation.

The decline in pre-tax profits from L224.7bn in the 1987 first half to L171.3bn ($122m) "reflected a tightening in operating margins which, in many ways, is characteristic of the information technology industry at large," said Olivetti yesterday. It added that the effect of tightening margins had been intensified by the renewal of its minicomputer and personal computer product lines.

The company said that the rate of orders for the new products demonstrated a positive response whose benefits would show up in second-half profits. Orders booked in the first half rose 18 per cent to L3,879bn but the 16.1 per cent increase in sales in the first six months to L3,623bn was based mainly on previous product lines.

Profit margins had been affected both by strong competition and by "a substantial rise in the prices of specialised electronic components caused by a shortage in supply".

Research and development expenses in the first half rose from L188.6bn in the previous year to L211.9bn while fixed investments remained in line with earlier "exceptional" levels, totalling L216.6bn compared with L222bn.

Investments and an increase in working capital reduced net available finances to L32bn compared with L531bn at the end of last December.

In his chairman's report, Mr De Benedetti said yesterday that the group's financial solidity was the best guarantee "for a new period of growth based on our new products." The company refused last night to give precise details of orders for its new LSX minicomputer system, but said that contracts had already been signed for delivery in the "next years" for L1,500bn with customers ranging from Britain's Abbey National Building Society to the Spanish Government.

Mr De Benedetti's report also noted that Olivetti's Triumph-Adler office equipment subsidiary was consolidating its recovery with a 1.4 per cent rise in sales to L353.2bn.

Riches hidden within the glittering prize

Chris Sherwell examines the position of Australia's Renison in Minorco's £2.9bn bid for Gold Fields

THE SIGN above the unattractive quayside skyscraper says simply, and rather meaninglessly, "Gold Fields." On the top floor, overlooking Sydney's Harbour Bridge and Opera House, is the headquarters of Renison Goldfields Consolidated – and inside there is an understandable air of concern.

Renison is 49 per cent owned by Consolidated Gold Fields of the UK, which last week became the object of a £2.9bn bid from Minorco, the Luxembourg-based investment group controlled by Anglo American Corporation and De Beers of South Africa. To Mr Campbell Anderson, Renison's managing director and chief executive, that makes his company a target too.

Mr Anderson is reluctant to comment on the matter at this early stage and especially before seeing the details of the bid in Minorco's formal offer document but yesterday he acknowledged that the group viewed the takeover offer with concern.

"The relationship between Renison and Consolidated Gold Fields has been constructive for both companies, so anything which threatens that must be of concern," he said. "Also, the bidder has South African connections and the implications of having a South African-connected shareholder raises uncertainties in areas where we operate."

Renison is not the only Australian company directly affected by the bid. Gold Fields also owns 70 per cent of Goldsworthy Mining, which produces iron ore from the Pilbara region of north-western Australia, and has 49 per cent of US group Newmont Mining, which in turn has 75 per cent of gold producer Newmont Australia.

However, Renison is probably the most important, and is certainly the most visible. While its contribution to Gold Fields pretax profits of around 5 per cent may make it relatively small, it makes up for this with its diversity of interests – in tin, copper and mineral sands, as well as gold.

In tin, for example, the group was among those hurt by the collapse of the international tin market two years ago and it has not been helped this past year by a stronger Australian dollar or by labour and equipment difficulties at its mine in Tasmania.

On the other hand, the acquisition of 75 per cent of the Koba Tin mine in Indonesia has increased the group's share of Western world tin production to approximately 10 per cent and strengthened its position in the market.

In copper, too, the group's revenues have been cut by several million dollars through a misjudgment of the commodity and exchange rate markets, which led to a decision to forward sell output from its Mount Lyell mine in Tasmania.

More positively, high market prices for mineral sands products, notably titanium dioxide and zircon, helped this division to record a 39 per cent increase in profit contribution to A$88m (US$69m) – no small figure when compared with the group's pretax profit of A$81m for the year to June, 1988.

Last month the group also reported the discovery of a new resource of 150m tonnes of ore with a heavy mineral grade of four per cent. This is located a few kilometres from existing operations in Western Australia.

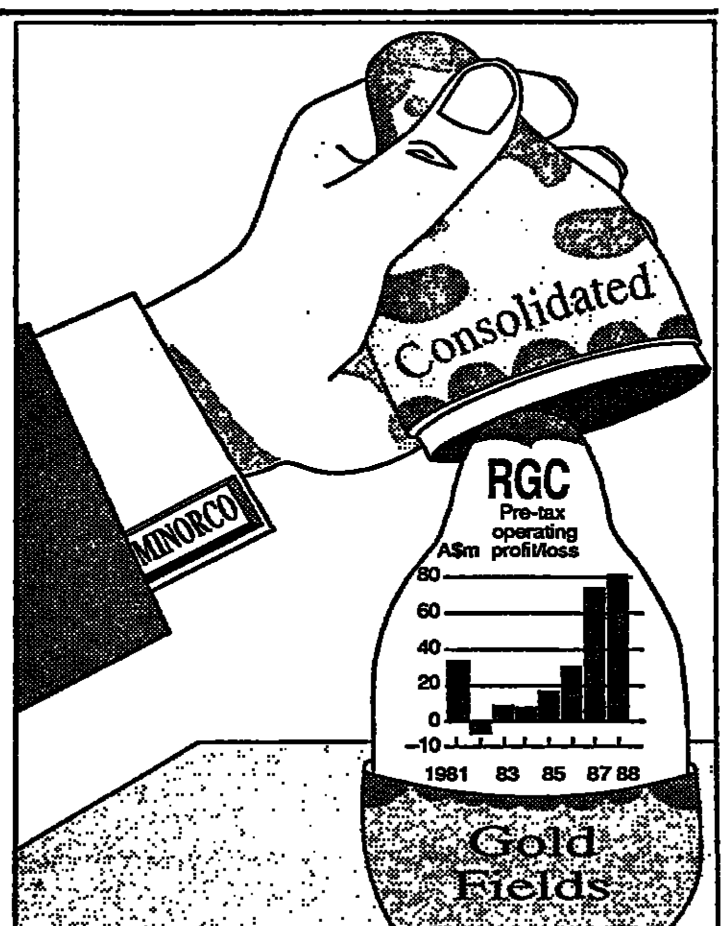
Most excitement, however, focuses on the Porgera gold deposit in Papua New Guinea. Here Renison and its partners, MIM and Placer Pacific, each have a one-third stake. It will be one of the world's largest gold mines once it gets going, with production averaging 800,000 ounces a year for the first six years.

The three partners submitted their feasibility study to the Port Moresby government in June, and a decision on development is expected before the end of the year. The unanswered question is whether the Minorco bid for Gold Fields will make any difference.

Negotiations between the Papua New Guinea Government and multinational mining companies over most projects are invariably complex and always sensitive, usually because they touch on issues of government equity participation, land use and the environment. At different times in the past Placer Pacific, MIM and others have all become embroiled in difficulties.

The worry now is that the "South African connection" might surface as a real issue but in fact the question has arisen once before, when it was reported in Papua New Guinea last year that some five per cent of the dividends from Porgera would end up going to South Africa because of Renison's involvement.

The Government, conscious of its anti-apartheid stance, said it would look into the matter and apparently came to the view that no control or influence over Renison actually arose from South Africa.



This is the main nub of Renison's concern about the Minorco bid. The last thing it wants is additional complications with governments in the Pacific region.

Should it happen, however, local mining analysts feel sure a Minorco-controlled Gold Fields would not want to sell off any of its Australian resource interests. On the contrary, they say, these and Gold Fields' US interests would comprise the group's most important assets.

SmithKline restructuring to cost $400m with the loss of 1,600 jobs

By Deborah Hargreaves in New York

SMITHKLINE Beckman, the troubled US pharmaceuticals group, yesterday announced a restructuring plan that will result in a $375m to $400m pre-tax charge on its third quarter earnings and lead to the loss of 1,600 jobs.

The company, which has been facing increasing pressure to improve its competitive position since it experienced a sharp drop in sales for its two leading drug products, said it would restructure its pharmaceutical business, consolidate manufacturing operations and cut corporate staff by 60 per cent.

The restructuring will save the company an estimated $100m a year by 1990, according to Mr Henry Wendt, SmithKline's chairman, and will have a favourable effect on earnings in the first quarter of next year.

However, this year's income will be lower than expected at between $3.75 and $4.00 before the pre-tax charge.

Analysts had estimated the company's 1988 earnings at 5 to 10 per cent below last year's $4.50 a share.

The newly restructured pharmaceuticals division will be headed by Mr John Chappell, president of SmithKline's international drug operations.

The US drug division had been run by Mr Frederick Kyle since its previous president, Mr Jim Cavanaugh, quit the company in July after it reported a 25 per cent drop in profits.

A position has been created for Mr Kyle as executive vice president of operations.

As part of the restructuring plan, SmithKline will make a public offering of a 17 per cent stake in its Beckman medical instruments unit.

Wall Street remained unimpressed with yesterday's widely expected announcement and SmithKline's share price dropped $2 to $46⅛.

The company is under pressure to bolster earnings because of the fear of falling prey to a hostile takeover bid. The break-up value of SmithKline is estimated at $80 to $96 a share.

Revenues at the drug company have dropped sharply as its two leading generic brands, Tagamet, a drug for treating stomach ulcers, and Dyazide, a diuretic, have lost out in an aggressive marketing battle against new drugs on the market.

The company is not expected to be able to produce any new successor drugs to compete in the market until 1991.

Elders IXL reports record results

By Chris Sherwell in Sydney

ELDERS IXL, the Melbourne-based brewing, agribusiness, resources and finance multinational, yesterday laid claim to being Australia's largest company by sales volume when it reported record results for the year to June.

The group also disclosed that its Hong Kong associate, Elders Investments, held a stake of almost 1 per cent in Anheuser-Busch, the large US brewer. Mr John Elliott, Elders' chairman, would not comment on his intentions towards Anheuser, shares in which fell by ¼ to close at $31¾.

Elders reported a 72 per cent surge in overall profit to reach almost A$685m (US$539m). Sales and other revenues increased 45 per cent to A$15.35bn, well ahead of retail group Coles Myer's A$12.8bn.

The figures prompted directors to announce a one-for-five scrip issue and an unfranked final dividend of 9.5 cents a share on the increased capital, making a total of 17.4 cents, up 46 per cent.

A breakdown of pre-tax operating profits, released by Elders for the first time, showed the brewing division's contribution before tax and interest rose 86 per cent to A$657m. Carlton Breweries in Australia, Courage in the UK and Carling O'Keefe in Canada all returned results above budget.

The agribusiness division lifted its contribution 95 per cent to A$157m, capitalising on one of the best agricultural trading environments seen in recent years. Elders said its recent US acquisitions, which had exceeded expectations, made Elders Grain the 10th largest grain handling and storage company in the US.

Equity-accounted investments improved to A$237m, but Hong Kong-based Elders Investments, which is 75 per cent owned, showed a A$17m loss. The finance group's contribution, before tax but after interest, was unchanged at A$63m. Resources dropped to A$36m from A$42m.

In another first-time disclosure, Elders distinguished its operating earnings from abnormal gains. The group's net operating profit was A$448.6m – equivalent to 31.3 cents per share, up 31 per cent on last year's figure adjusted for scrip issues. Abnormal profits amounted to A$236.3m.

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Sun Micro plans personal computer market assault

By Louise Kehoe in San Francisco

SUN MICROSYSTEMS, the leading computer workstation manufacturer and the fastest growing company in the computer industry, is planning an assault on the personal computer market next year, a senior executive of the company has revealed.

Mr William Joy, co-founder and vice-president of technology at Sun, said that Sun and other companies will launch personal computers that combine the power of Sun's workstations with the ability to run thousands of IBM-compatible personal computer programs.

This will place Sun in direct competition with Apple Computer, IBM, Compaq and many others in the market for very high performance personal computers.

While most personal computers incorporate microprocessor chips designed by Intel, Sun plans to use its own SPARC microprocessor to create personal computers that are three times faster than systems based on Intel's latest 386 chip.

Sun has licensed five semiconductor manufacturers, including Texas Instruments and LSI Logic, to make its SPARC chip which is a very high performance microprocessor based on a Reduced Instruction Set Computing (RISC) architecture.

A number of computer companies are planning personal computer products based on SPARC, Mr Joy said. "I'm very excited about the SPARC PC-compatible market that's going to emerge next year," he added.

The SPARC personal computers will combine the ability to run UNIX applications and those designed for IBM-compatible personal computers, said Mr Joy.

This could significantly broaden Sun's market by combining workstation and personal computer applications.

Mr Joy was speaking at a computer conference in Californiaand a Sun official said that his remarks referred to the emerging market for personal-computer class machines and were not specific to Sun products.

Prolonged chip shortage seen

By Our San Francisco Correspondent

THE MEMORY chip shortage, which is having a serious impact on leading US computer manufacturers, may continue for another three years, Mr Tsuyoshi Kawanishi, vice-president of electronic components at Toshiba of Japan, told US industry executives and investors this week.

Speaking at a San Francisco technology conference, Mr Kawanishi warned that he expected worldwide demand for dynamic random access memory (Dram) chips, to exceed supply for the next three years. Toshiba is one of the largest producers of Drams in the world, with about one-third of the market, according to industry analysts. Japanese companies supply about 90 per cent of the world market for Drams.

Toshiba's analysis of the Dram market contrasts with the expectations of US computer and semiconductor industry executives, who have predicted that the shortage will end late next year.

"Now we have a big gap (between supply and demand), and next year we will have the same gap or it will increase," Mr Kawanishi said.

The 25 per cent growth in computer sales this year was likely to continue through 1989, keeping demand for Drams very high, he explained.

Demand would also be increased by the emergence of high definition television and other products, such as low-cost facsimile machines, that also require Drams for data storage, Mr Kawanishi added.

The reluctance of semiconductor producers to invest huge sums in new memory production plants would continue to limit the supply.

Specialty side boosts National Medical

By Deborah Hargreaves in New York

NATIONAL Medical Enterprises, the US hospital management company, yesterday reported a strong first quarter, buoyed by strength in its specialty hospital services.

Net income for the quarter, ended August 31, rose to \$41.1m or 56 cents a share from \$40.2m or 53 cents in the same period last year. Revenues increased to \$852.6m from \$746.8m.

Mr Richard Eamer, chairman, said its specialty hospitals which include psychiatric and rehabilitation care, had experienced a very strong quarter.

"This reflects continued demand for specialty hospital services coupled with the success of our treatment programmes," he said.

National Medical has recently opened a new psychiatric facility and three physical rehabilitation hospitals to meet increasing demand.

The company's general hospital services continued to perform steadily, but its nursing home operations were affected by rising labour costs.

The company is trying to divest its weaker nursing homes and increase the proportion of private-pay patients, who are more profitable.

National Medical's share price dropped \$⅛ in early trading yesterday to \$20⅞.

Air Canada likely to issue shares at C$8 each

By David Owen in Toronto

AIR CANADA, the government-owned Canadian airline, was yesterday expected to unveil the price of stock in the approximately C\$300m (US\$246m) share issue which will put 45 per cent of the company into private hands.

The partial privatisation of the airline was originally announced by the Conservative Government last April. The funds from the issue will go to the airline and have been earmarked for fleet renewal.

It is anticipated that the price will be fixed at between C\$8 and C\$10 per unit. Reports that the issue will be oversubscribed suggest that a price tag of about C\$10 is likely.

The general lack of interest among small Canadian investors is apparently causing concern at the airline. Senior management had been hoping that a successful initial offering might encourage the Government eventually to sell its remaining 55 per cent stake in the company.

Air Canada employees are thought to have taken up most of their 10 per cent allotment, emboldened by various incentive schemes, including interest-free loans and a 10 per cent discount.

The incentives were needed partly because the airline is unlikely to pay dividends on common shares in the near term.

The Government's going privatisation programme has singularly failed to catch the public's imagination, as in the UK and elsewhere.

The continuing unease of North American equity markets since last October's crash has done nothing to improve the situation.

IBM executive to join Texaco

TEXACO, the US oil group, has appointed Mr Allen Krowe senior vice president and chief financial officer, effective October 1, replacing Mr Richard Brinkman, who is taking early retirement.

Mr Krowe is currently executive vice-president and a director of International Business Machines.

Resource groups up for grabs

David Owen on the threat to cash-starved Canadian companies

The process of consolidation in the extensive Canadian resource sector is poised to accelerate, spurred partly by the deteriorating markets for gold and oil.

Lower prices for these key commodities are combining with other factors, including higher interest rates, the stronger Canadian dollar and difficult post-crash equity financing to erode resource company profit margins and to starve them of capital.

The position of small companies, which have not hedged their output and whose financing options are extremely limited, is generally regarded as the most precarious.

The development comes as corporate Canada is engaging in a wave of takeovers and mergers in an attempt to build companies powerful enough to compete with US rivals in an increasingly integrated continental market. Sectors recently affected include steel, petrochemicals and uranium.

Gold companies too have participated in the restructuring, as the formation of both Placer Dome – the largest gold producer outside South Africa and the Soviet Union – and Corona bear testament.

The oil patch has also, since early 1987, witnessed considerable takeover activity, with several of the target companies (Dome Petroleum, Sulpetro, Ocelot Industries. . . .) essentially victims of the previous market downturn, in 1986.

The present plunge is widely expected to give this process a new lease of life, with diversified or cash-rich larger companies moving to snap up troubled or becalmed juniors, in the way that Mark Resources recently acquired control of Erskine Resources of Calgary.

Larger energy companies, analysts say, are generally in sounder financial shape and are less likely to succumb to takeover. In addition, many are subsidiaries, either of major US- or Europe-based producers or of wide-ranging Canadian business empires such as those presided over by the Reichmanns, the Bronfmans or the conglomerate, BCE, which has interests in telecommunications, energy and real estate.

"The distress sales have taken place," says Mr Ken Croft, an energy analyst with ScotiaMcLeod. "However, the BPs and Imperials all have money to spend."

Government policy may also restrict deals in the energy sector, since foreigners are permitted to take over only financially troubled Canadian companies.

A prolonged spell of sub-US\$15 a barrel oil could place an increasing number of smaller businesses within that category, particularly since the price of standard crude is now lower than it was in 1986, in Canadian dollar terms.

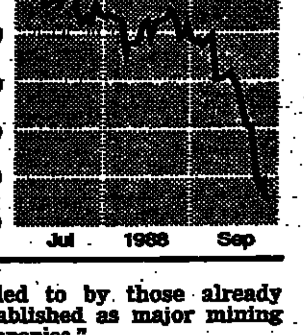
The fast-expanding domestic gold sector, by contrast, has experienced no such recent shakeout. Far fewer of the major players, moreover, are controlled by large multinationals or conglomerates.

In addition to junior companies, therefore, takeover targets may include some household Canadian names. Mining analyst Mr Jean-Charles Potvin of Burns Fry believes that companies with "significant debt" as well as small companies may form part of a consolidation trend.

Metals + Minerals Research Services, the London-based consultancy group, agrees. In a recent report, it projects that, if gold reached US\$350 to \$400 an oz (it is hovering around \$400), "the ambitions and financial muscle of the independents may wane, leaving a store of gold reserves to be added to by those already established as major mining companies."

Gold Price

$ per fine ounce in London



Among North American companies characterised as possibly vulnerable to this scenario were Cambior, Battle Mountain Gold and LAC Minerals. Toronto-based LAC is still contesting ownership of the much-coveted Page-Williams gold mine with Corona.

The plight of the junior gold companies, meanwhile, is epitomised by the problems of the highly speculative and gold-related Vancouver Stock Exchange. The exchange is moving to review its listing requirements, partly because of the inadequate amounts of capital which the average newly-listed resource company is managing to drum up.

Currently, resource-based initial public offerings are raising only some C\$200,000 (US\$164,000) each. This is insufficient to support an adequate exploration programme, with the result that the exchange's composite index is being depressed by the presence of so-called "shell" companies which have run out of cash.

Since the beginning of the year, the index has fallen by some 21 per cent, in approximate tandem with the gold price itself. At below 890 at present, the index stands at less than half its 1987 peak of 2024.4.

With the outlooks for a range of commodities, including copper, nickel and aluminium, turning more bearish, some expect that the consolidation process will soon extend into other resource sectors.

New capacity and stagnating demand is forecast, for example, to transform the picture in the buoyant forest products sector by about the end of the decade. This may prompt the big companies with the most cash and the lowest debt:equity ratios to spring into action.

"I think there will be a lot more consolidation", says Mr Steven Atkinson, forest products analyst with McNeil Mantha. "Companies like MacMillan Bloedel are building a war-chest."

Alberta tar sands project wins further aid

By Robert Gibbens in Montreal

ALBERTA HAS won a federal commitment worth nearly C\$500m (US\$410m) to subsidise its next big energy project – the C\$4.1bn OSLO Tar Sands project near Fort McMurray.

Both federal and provincial governments are ready to provide about C\$1bn or 25 per cent each of the capital cost of the 75,000 barrels daily synthetic oil project and up to C\$680m in loan guarantees and other aid, provided oil prices recover to near US\$20 a barrel by 1991.

The federal commitment comes only weeks before the federal election and is timed to balance similar commitments for the Hibernia project off the east coast. But Canada knows that because of a continuing decline in reserves of conventional oil on the Western Plains, a third tar sands mining project will be needed in the 1990s.

OSLO (Other Six Leases Organisation) is located near the existing Syncrude Canada plant, just 10 years old, and the Suncor plant, the first to be built in the late 1960s. Together these provide about 12 per cent of Canada's crude oil supply, with capacity of nearly 200,000 barrels daily.

OSLO is controlled by Imperial, Canadian Occidental Petroleum, Gulf Canada Resources, Petro-Canada, Pan Canadian Petroleum, and an Alberta government agency. The partners are substantially the same as in Syncrude. Both Syncrude and Suncor have been subject to major shutdowns from fires and other technical problems.

The federal-provincial commitments for OSLO and Hibernia require stable international oil prices from US\$18-20 a barrel to justify a start on construction.

OSLO and its partners, led by Imperial Oil (Exxon) will concentrate on engineering and plant design for the next two years with a tentative target of 1991 for the start of construction and 1996 for production. Hibernia would still be a marginal project by that time.

The cost per barrel for OSLO can be refined to the last detail because of 30 years' experience with the tar sands.

INTERNATIONAL COMPANIES AND FINANCE

Hang Lung lifts profits by 13.5% to HK$756m

By Michael Marray in Hong Kong

HANG LUNG Development, the Hong Kong property company run by Mr Thomas Chen, yesterday reported profits after tax and minorities of HK$755.6m (US$96.8m) for the year ended June 30, an increase of 13.5 per cent over the previous year.

Turnover rose to HK$3.43bn from a previous HK$2.92bn. The results were in line with expectations.

At the same time Hang Lung announced details of a restructuring involving two subsidiaries, Amoy Properties and the newly acquired Local Property, under which the latter is to become purely a hotel owning and operating company.

Amoy Properties was spun off from Hang Lung in early October 1987, as the group's property investment arm.

Earlier this year Amoy acquired a controlling interest in Local Property from Sir Y. K. Pao's Wharf Holdings, subsequently making a general offer to shareholders which valued the company at HK$900m.

Local Property's assets include three buildings in the Central financial district, and under the terms of a proposed asset swap these and other properties will be acquired by Amoy.

Amoy Properties will transfer to Local Property all of its hotel interests, consisting of three tourist class hotels with more than 1,200 rooms in Kowloon and on Hong Kong island.

Hang Lung will then transfer the hotel management company to Local Property, and will continue to have a controlling interest in the new hotel company.

Arrangements will also be made for 25 per cent of Local Property's shares to be held by the public, in order to comply with Stock Exchange regulations.

Yesterday Amoy Properties announced profits after tax and minorities of HK$352m for the year ended June 30, up from a previous HK$307.2m. The results are not comparable because of the 1987 restructuring.

Extraordinary items worth HK$141.2m boosted attributable profits to HK$493.3m from a previous HK$309.7m, and turnover rose to HK$473.6m from HK$354.1m.

Earlier this year Hang Lung Development acquired a controlling interest in Perth-based Parry Corp, a diversified real estate, investment, mining and department store group, later ousting founder Mr Kevin Parry from the board.

Banking's sleeping giant begins to stir

Laura Raun on how ABN faces competition without losing its old-fashioned touch

Algemene Bank Nederland is unabashedly old-fashioned. It takes pride in its conservatism and eschews aggressive tactics.

ABN is also a kind of sleeping giant. Growth is steady but slow, and profitability is middling. It is the biggest bank in the Netherlands but commands only a modest market share; it is the 41st largest bank in the world but has a rather vague image.

Pressure is growing on ABN to improve its performance. Competitors are joining forces and carving out new markets to bolster their positions ahead of the single European market of 1992.

Mr Robertus Hazelhoff, chairman of ABN, is nevertheless sanguine. The veteran Dutch banker sees merger mania and trendy markets as no reason for ABN to follow suit.

"We're big enough and international enough that we can easily survive on our own," he explains. "We don't want to have an image as an aggressive bank but as a good, sober, cautious bank reacting to what happens."

ABN is caught in a conundrum, though. On one hand it needs to expand abroad because growth opportunities are greater there than in the overbanked Netherlands. The US is considered especially attractive because banking is being deregulated and profit margins often are wider.

Mr Hazelhoff predicts that ABN will be bigger abroad than at home within 25 years. Now the balance sheet is split one-third abroad, one-third home and one-third interbank. On the other hand, ABN cannot write off the Netherlands because it has such a relatively small market share. "We feel that in order to be a good international bank we need to have a good home base," Mr Hazelhoff explains.

The bank's guiding principle, he continues, is "balanced growth," both in terms of geography and products. "Never over-stress one sector over another because you can make a mistake."

This cautious approach means ABN has rarely made terrible blunders but it has rarely scored enormous successes. Some analysts question whether it is sufficient to carry ABN into the 1990s when competition is expected to heighten even more amid the integrated European market.

"There appears to be little element of anticipation in their strategy," observes Miss Arabella Volkers of Hoare Govett, the London stockbroker. "They seem slow in reading market trends."

She wonders whether ABN's "balanced growth" strategy is actually a lack of clear direction.

Formed from a merger in 1964 between Twentsche Bank and the Netherlands Trading Company, ABN four years later took over Hollandsche Bank Unie with its extensive foreign network of branches, especially in South America. In 1975 Bank Mees & Hope, a leading merchant bank, joined the fold.

ABN is a universal bank, offering a broad range of services including demand deposits, securities trading and insurance brokering.

In recent years revenue, profits and balance sheet have risen only modestly. Since 1983 revenue growth has averaged slightly more than 1 per cent a year, amounting to Fl 4.2bn ($2bn) in 1987.

Profits have advanced an average of 7 per cent a year, reaching Fl 517m in 1987. But return on equity has fallen for three years straight, hitting 9 per cent last year. In profitability worldwide ABN ranks 57th, according to IBCA Banking Analysis.

Robertus Hazelhoff: "We don't want to have golden boys"

The balance sheet has expanded about 3 per cent a year to Fl 150.9bn in 1987, making it once again the largest bank in the Netherlands. But if Amsterdam-Rotterdam bank (AMRO) and Générale Bank of Belgium fully merge, as they are considering, they would leap ahead of ABN.

NMB, the fourth largest Dutch bank, and government-owned Postbank also are contemplating a merger. But Mr Hazelhoff sees no such move for ABN: "We will develop further under our own strength, via the opening of new branches and acquisitions, in Europe and outside."

Even in the banking world, which is conservative by nature, ABN is known for its caution. It is well capitalised, with equity accounting for nearly 6 per cent of the balance sheet and expects little problem with the more stringent capital ratios to be imposed in 1992 in line with international standards.

During London's "big bang," ABN was one of the few foreign banks that did not buy a merchant bank or stockbroker. It already had an office in London and did not want to pay the astronomical salaries demanded by "hot" traders. "We don't want to have golden boys," explains Mr Hazelhoff.

Even in its home market ABN has only cautiously taken advantage of freedoms allowed by liberalisation. "We shouldn't lag behind," he concedes. "But it is better to be number two or three and to learn from the mistakes of others than to lose a lot of money."

Mr Hazelhoff epitomises the prudent banker. He has spent all 36 years of his career with ABN, working up from backroom clerk to head of the bank.

He still echoes the traditional Dutch aversion to borrowing when explaining why ABN, like other Dutch banks, has lagged behind in credit cards. "A Dutchman doesn't like to borrow. When I was a child only one man on the street had a mortgage."

In electronic banking ABN has also dragged its feet. Bank tellers still have to rifle through piles of paper to confirm available funds before dispensing cash.

Automated teller machines (ATMs) number about 100, more than other banks but still modest by international standards. ABN and others are also scrambling further to automate the Dutch payments clearing system.

For ABN's future the crucial question is growth. At home it commands only 8.5 per cent of the retail market, a share that has not climbed in some years. An effort is being made to attract new customers through a renovation of bank branches with personal computers, faster service and more personal attention.

ABN hopes to boost its market share to 10 per cent over the next 10 years but even that seems modest for the country's biggest bank.

In the corporate sector ABN declines to say what its market share is but claims it has widened, thanks to electronic banking services.

In the rest of Europe ABN is looking more to the corporate customer than the retail one. It has acquired several banks and brokers around Europe over the past year and now has a presence in every country in the EC except Portugal.

Merger and acquisition activity, notably among small companies, is considered a promising sector ahead of 1992. Securities trading also is being cultivated.

It is in the US, however, where ABN is concentrating much of its attention. Earlier this year ABN bought Lane Financial of Illinois, a holding company for four banks in and around Chicago. ABN would still like to make further acquisitions in the US but has set stiff criteria.

In short, the formula for growth is acquisitions abroad and organic expansion at home. Whether profit margins widen at the same time is less clear.

Acmex buys Carbide unit

By Chris Sherwell in Sydney

ONE of Australia's longest-running takeover battles ended yesterday when Union Carbide of the US sold its 60 per cent shareholding in its Australian and New Zealand subsidiary to Acmex, a subsidiary of Sir Ron Brierley's Industrial Equity (IEL).

Acmex began its battle for control of Union Carbide's company in February last year, when it blocked the US group's attempt to mop up the 40 per cent it did not already own and launched its own A$160m (US$126m) takeover bid.

With yesterday's sale, said to be worth A$87.3m, Acmex will acquire 95 per cent of the company but must make a A$6.04 per share offer to remaining shareholders. This is about the level offered and rejected by Union Carbide, which itself had bid A$5.75 per share.

As part of the deal, Acmex is to sell the company's chemical and industrial products businesses back to Union Carbide, and transfer the assets of the company's Australian and New Zealand battery products divisions into joint ventures 60 per cent owned by Ralston Purina of the US.

This will leaves Acmex with the plastic Glad Wrap home products division and a 40 per cent share of the joint ventures. Sale prices in relation to the ventures and the businesses sold back to Union Carbide were not disclosed.

Income up at Malaysia Mining

By Wong Sulong in Kuala Lumpur

MALAYSIA Mining Corporation, the world's biggest tin mining company, has reported a 25 per cent increase in pre-tax profit to 25.2m ringgit ($9.47m) for its first half ended July on turnover up 29 per cent to 330m ringgit.

The group said the results were due largely to higher volume, and better commodity prices, particularly for tin. It is paying an interim dividend of two cents per 10 cents share, from 1.5 cents a year ago.

MMC said second-half results were expected to be better than those of the first half, given the continual improvement in the Malaysian economy, as well as tin prices.

Several companies within the group have announced plans to restart some of their dredges once the price of tin is above 20 ringgit a kilo. It is currently just below that level.

In another statement, MMC has denied a Singapore newspaper report that it had won a contract to build the second stage of the peninsular gas pipeline for Petronas, the national oil company.

It said one of its subsidiaries was part of a consortium bidding for the project, and negotiations are continuing. MMC is also involved in another consortium which is bidding for the running of the Malaysian postal services. These are being privatised.

● Malaysian International Shipping Line, one of the country's biggest companies, has reported a pretax profit of 168.4m ringgit for its first half to June compared with 145m ringgit previously, an increase of 16 per cent.

Turnover rose to 713m ringgit from 698m ringgit. Net after-tax profit was 17 per cent higher at 167m ringgit.

The shipping line attributed the higher earnings to better contributions from its liner and bulk trade as well as lower interest payments.

The biggest contributor to group profits came from the operation of its five liquid natural-gas tankers, transporting LNG from Sarawak to Japan.

MISC has declared an interim tax-exempt dividend of 5 cents, unchanged.

It said second half earnings would "not be less but possibly better than that of the first half."

INTERNATIONAL COMPANIES AND FINANCE

Aker to spin off property business

By Karen Fossli in Oslo

AKER, one of Norway's largest industrial groups, has announced the first move in a plan radically to restructure the company in its effort to reduce its NKr8.5bn ($1.2bn) debt by NKr3bn.

Mr Gerhard Heiberg, the group's president, yesterday outlined proposals agreed by the board the previous day to spin off Aker Eiendom, the company's property business.

The board is proposing that for every existing Aker Group share, shareholders will instead receive one share in the separate property company and one in the main industrial group.

Mr Heiberg said: "In recent years the property business has been a great drain on Aker's overall financial capacity. Continuing with the property company under the Aker auspices would mean that considerable amounts of capital would remain tied up." Aker is to concentrate in future on the business sectors of cement, heavy building materials and construction, and offshore.

Mr Heiberg said that negotiations were underway for the sale of shareholdings in other companies, including its 20 per cent stake in Saga Petroleum, the independent Norwegian oil company, and its 20 per cent stake in Kosmos, the shipping group.

The group reported turnover of NKr11.272bn in the first eight months of this year, compared with NKr8.244bn in the previous year. However, the ordinary result – operating profits after financial expenses – fell to NKr19m, from NKr107m in the same period last year, because of a NKr195m write-off on a contract for which Aker had under-estimated.

Mr Arvid Ramsdal, finance director, said yesterday that the company's net share capital, including taxable funds, was about NKr2.8bn. Total balance – gross working capital – of the company was estimated at about NKr16.5bn while the equity-to-debt ratio was put at about 17 per cent.

Separately, Aker announced the appointment of Mr Tom Rudd as managing director and as alternate group managing director.

RVI set to achieve record profit

By Kevin Done, Motor Industry Correspondent, in Paris

RENAULT Vehicules Industriels (RVI), the commercial vehicles subsidiary of Renault of France, is set to achieve a record profit of about FFr1bn ($156m) this year, a fivefold increase on 1987.

RVI has staged a dramatic financial recovery during the last two years after more than a decade of losses.

The state-owned group, which is the world's fourth largest producer of trucks over five tonnes gross vehicle weight and which controls Mack, the US heavy truck producer, achieved a pre-tax profit of FFr687m in the first six months of the year after barely breaking even in the same period of 1987.

The group's net profit in the first six months, after minority interests, was FFr478m, compared with a net profit of FFr199m in the whole of 1987 and a loss of FFr983m in 1986. RVI turnover rose by 16.7 per cent in the first six months to FFr16.8bn from FFr14.4bn a year earlier.

Mr Philippe Gras, RVI chairman and chief executive, said the company aimed to achieve an annual profit of around FFr1bn in a strong market and successful rationalisation had made it better able to cope with a downturn in demand.

RVI could now face up to a big drop in volume without hurting its financial results. Mr Gras added: "Even if we lost 15 to 20 per cent of overall sales volumes in Europe we would still be making money."

RVI is seeking to strengthen its presence in the top-of-the-line heavy duty segment of the European truck market and yesterday unveiled a new higher-power articulated truck, the R420.

The group is also studying the adaptation of a US Mack 500 horsepower engine for the European market. Mr Gras said that the group planned to spend around FFr12bn over the next five years on capital investment and research and development.

In the first six months of the year the sales of its European operations increased by 23.2 per cent to FFr10.9bn, while Mack's sales rose by 13 per cent to $1.057bn.

In France RVI has increased its share of the domestic market by one percentage point to 41.3 per cent in the first six months, while its share of the booming total European truck market (over five tonnes gross vehicle weight) to 13 per cent from 12.5 per cent a year ago. Mack's share of the US heavy truck market has declined marginally to 15.4 per cent.

Mr Gras said that the productivity of RVI's European operations had jumped by 20 per cent in the first six months of 1988. Vehicle output in Europe from assembly plants in France, Spain and the UK had increased overall by 22.9 per cent to 27,877 units.

Renault Truck Industries, the group's UK subsidiary, is still the weakest part of RVI's European operations. It could only break even in the first six months and production for the full year is expected to fall to around 4,600 units from 5,104 units despite a booming UK commercial vehicles market.

Peugeot reports half-year advance

By Paul Betts in Paris

PEUGEOT, the private French car group embracing the Peugeot and Citroen marques, yesterday reported a 21 per cent increase in first half net profits to FFr4bn ($624m) compared with FFr3.3bn for the first six months of last year. First-half sales also rose by 21 per cent to FFr71bn.

Mr Jacques Calvet, the chairman, said that for the full year he expected the group to repeat or even exceed its FFr6.7bn profits of last year despite a significantly higher tax burden.

Pre-tax profits in the first half of this year rose to FFr7.1bn from FFr4.2bn, compared the the first half last year. Mr Calvet also said that group debt was expected to decline from FFr19bn to well below FFr15bn by the end of this year.

He added that Peugeot's strong first-half performance reflected both the company's productivity improvements and new products as well as a particularly encouraging French and European car market environment.

In France, Peugeot group sales had grown by 11.4 per cent by the end of last month or nearly twice as much as the overall domestic market. The group's domestic market share had also risen to 34.9 per cent compared with 33.2 per cent a year earlier.

In Europe as a whole, Peugeot had boosted its market share to 12.75 per cent from 11.73 per cent a year earlier, placing the company third behind Fiat with 14.8 per cent and Volkswagen with 14.4 per cent. Mr Calvet said his target was for Peugeot to become number one in Europe by 1992 or 1993.

Peugeot's production is expected to continue rising this year to about 2.07m cars from 1.9m last year. Mr Calvet intends to boost production capacity to 2.3m cars during the next two years and 2.5m cars over the next four years.

Mr Calvet acknowledged that he had badly underestimated the growth of the French and European car markets this year. Peugeot had originally expected a downturn in the European market of about 3 per cent this year. However, the European market at the end of last month had expanded by about 5 per cent, growing by 6 per cent in France and 4.8 per cent elsewhere in Europe.

Mr Calvet confirmed the strong performance of Peugeot's UK operations where net profits are now expected to increase to around £40m to £50m ($30m) this year from £13.15m.

Apple and Tandem in Macintosh deal

By Louise Kehoe in San Francisco

TANDEM COMPUTERS and Apple Computer of the US have entered an agreement under which Tandem will sell, service and support Apple's Macintosh personal computers as part of its on-line transaction processing networks.

These networks are used by banks, airlines and others to process thousands of transactions an hour.

Under the four-year deal, Tandem will become a "value-added reseller" of the Apple Macintosh and will add its own software to connect the personal computers to its fault-tolerant mainframe computers. Tandem said that these products will be available early next year.

Financial terms of the agreement were not disclosed, and the companies declined to comment on how many Macintosh computers might be involved.

The deal is, however, seen as a significant opportunity for Apple to increase its stake in the corporate computer market. It has been focusing on the business computer market for the past four years.

Apple's agreement with Tandem follows a major joint development agreement with Digital Equipment under which the companies will develop software linking Macintosh to VAX minicomputers.

For Tandem, the agreement represents a broadening of its product line. The company now offers IBM-compatible personal computers and terminals for use in its network systems.

The combination of Tandem's fault-tolerant systems, incorporating back-up systems designed to ensure the computer never fails, and Apple's Macintosh with its easy to use graphical interface may also represent an attractive offering in the growing market for computerised publishing systems used by newspapers and magazines.

Iveco sees 20% income rise

Iveco, Fiat's Netherlands-based diversified commercial vehicles holding company, predicted it will achieve a 20 per cent increase in net profit in 1988, to around L300bn. Iveco reported net profit of L250bn in 1987, AP-DJ reports.

Mr Giorgio Garuzzo, managing director, also said he expects consolidated revenue to rise by 13 per cent in 1988, or to nearly L7,600bn. Group sales will increase by 15 per cent this year, up from 118,000 units in 1987, he predicted.

Vienna cuts bank stake with sales to Japanese

By Judy Dempsey in Vienna

TWO LEADING Japanese institutions yesterday bought stakes in Creditanstalt-Bankverein as part of the Austrian Republic's plans gradually to reduce its holdings in the country's biggest bank.

The agreement involves Sumitomo Life, one of Japan's largest life insurance companies and Mitsubishi Trust, the leading trust bank, each of which have bought stakes of less than 5 per cent in Creditanstalt.

The deal, agreed at the IMF/World Bank meeting in Berlin, is the first time that leading Japanese institutional buyers have bought stakes in Creditanstalt, which has a consolidated balance sheet total of $40bn.

The price paid by the Japanese investors was not disclosed but at the close of trading in Vienna yesterday, Creditanstalt's ordinary shares were selling at Sch2,013.

The new Japanese stakes will now almost certainly reduce the republic's holding to around 51 per cent, the minimum amount allowed under the terms of the privatisation law passed last year.

The sale of the stakes confirms statements made earlier this year by Mr Guido Schmidt-Chiari, the recently-appointed director of Creditanstalt, to reduce, sooner than planned, the republic's holdings.

The agreement also forms part of Creditanstalt's strategy of developing its operations in Japan and focusing on Japanese institutional and private interest in investments in Austria.

Gilardini drops by 27% at midway stage

GILARDINI, the industrial components group controlled by Fiat, yesterday reported that gross operating earnings fell by 27.8 per cent in the opening half of 1988 to L35bn ($24.9m), down from L48.5bn a year earlier, AP-DJ reports.

Gilardini also said that consolidated revenue was flat at L564bn, down just L1bn on the first half in 1987.

The Turin-based company said the sale of a number of units which together turned over L400bn in 1987, adversely affected its first-half results.

Gilardini gets roughly 50 per cent of revenue from sales of vehicle parts, 25 per cent comes from the defence sector and the rest from components designed for the energy, environmental and other sectors.

Gilardini admitted that defence sales had fallen 10 per cent in the opening half and said this was mainly because of increasing difficulties in exporting these products.

Partial Outokumpu sell-off approved

By Olli Virtanen in Helsinki

OUTOKUMPU, the Finnish mining and metallurgical group, is to be the country's second state-owned company to be partly privatised.

The government's economic policy committee decided yesterday that Outokumpu could launch a share issue targeted at private investors providing that the state maintains control in the company.

Unlike Valmet, the metal and engineering group that blazed the trail among state-held companies by raising FM780m ($175m) from Finnish investors two weeks ago, Outokumpu may introduce two series of shares.

The committee decided that foreigners may own up to 20 per cent of the share capital in Outokumpu but free shares will be issued only in the "series of investment shares," indicating that the state will retain the series with most votes. The primary goal of a share issue, the committee said, is to raise funds for the company rather than to gain income for the state.

Outokumpu has not decided on a share issue yet but it is holding a press conference tomorrow at the premises of Postipankki, the state's post office bank.

Swedish bank lifts earnings

By Sara Webb in Stockholm

SVENSKA Handelsbanken, Sweden's second-largest commercial bank, reported a 23 per cent rise in operating profits to SKr2.07bn ($320m) for the first eight months of the year, helped by a strong rise in interest income and increased lending to households. Group profits rose by 19 per cent to SKr2.38bn.

The bank said that it expects the favourable trend in profits to continue for the remainder of 1988. Last year, the bank reported a 13 per cent drop in profits to SKr2.62bn as its operations were hit by heavy losses in options trading by two employees (who were subsequently fired)

Interest income at the bank climbed 19 per cent to SKr2.88bn in the first eight months as a result of higher volumes and improved margins on lending in Swedish kronor. Total income rose by 19 per cent to SKr3.983bn for the bank and by 18 per cent to SKr4.971bn for the whole group.

The bank noted a surge in lending to households and said that on average, lending in Swedish kronor was 21 per cent higher than in the comparable period last year in Sweden's deregulated market. Foreign exchange lending doubled during the same period, although the bank said its margins on this type of business were slim.

The introduction of new technology, implementation of plans to build up Handelsbanken's overseas operations and higher wage costs all contributed to the 16 per cent increase in total group costs.

However, credit losses for the bank were cut back to SKr57m from SKr86m in the comparable period last year.

Orkla plans changes in structure

By Karen Fossli in Oslo

ORKLA BORREGAARD, the Norwegian industrial and investment group, said yesterday that it hopes to increase the company's quota for foreign ownership to 30 per cent of its shares from 18 per cent.

It is also seeking permission to increase by 50 per cent of total share capital the company's non-voting B-shares – all of which may be owned by foreigners – and to reduce the group's booked equity and assets by NKr207.9m ($17.9m).

This will be achieved through the cancellation of 3m shares which it acquired through the merger of Orkla and Borregaard in 1986.

The cancellation corresponds to 2.8 per cent of the group's total assets and results in booked equity of NKr1.842bn, including 60 per cent of tax-exempt reserves. The share capital will thus stand at NKr618.3m.

The decision to increase the company's foreign ownership, however, hinges on the Storting's (Norway's parliament) approval of a recent proposal to ease restrictions on foreign ownership in Norwegian companies.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

New York prices trend lower in modest volume

By Janet Bush in New York and Our Euromarkets Staff in London

TREASURY BONDS continued to trend weaker but trading in New York at midsession was quiet and movements limited.

The Treasury's benchmark 30-year issue was quoted at 100⅔, a drop of ⅛ point which took the long bond's yield to 9.077 per cent.

With no major US economic indicators due for release yesterday and calm on the foreign exchange markets after Monday's well-publicised round of co-ordinated intervention by several leading central banks, there was little to give the bond market impetus.

Market talk centres on this week's Treasury auctions of two-year and four-year notes. The two-year auction yesterday totalled $8.75bn and was expected to attract reasonably good demand. Analysts said the flatness of the yield curve makes the short-end of the market quite attractive.

In when-issued trading, the new two-year notes were quoted at 8.53 per cent, up about 12 basis points since trading began last Wednesday.

The only major economic release due this week is Friday's publication of US leading indicators for August which are expected to be unchanged or show a slight decline.

Until then, the bond market is likely to fluctuate narrowly, tracking movements in oil and gold prices and other commodity prices.

UK GOVERNMENT prices closed ½ to ¾ points higher, gaining in occasionally hectic trading, with dealers ironically rejoicing over the second worst trade data in UK history. Late profit-taking pared prices from the day's best levels which were about ⅞ above the previous close.

While the irony of market jubilation was not wasted on dealers, they pointed out that a number of factors had boosted prices, perhaps artificially. For one thing, while the data were certainly poor, they were not as bad as the markets had been braced for.

Some City analysts had been expecting a current account deficit of as much as £2bn, while the shortfall was only £1.31bn, down sharply from July's record £2.15bn gap.

Also, within the data were some encouraging signs that perhaps UK domestic demand is beginning to abate and that higher interest rates will not be needed. Imports, for instance, reversed most of the excessive gains that had been seen in the July data.

But the shortage of stock remains the single greatest factor underpinning gilts prices, with dealers hanging on to stock, too frightened of being unable to buy it back at a fair price. Institutions which lend stock are now charging two to three times typical market rates to dealers on certain scarce issues.

The pound also jumped after the trade statistics were released, and significant purchases of gilts from Continental and US investors helped to boost prices.

Relief about the trade data was also borne out in three-month interbank rates which edged below 12 per cent for the first time in six weeks. While no one is yet betting on an official downward nudge for rates, the slowdown in the UK's trade deficit makes another base rate increase from the present 12 per cent increasingly unlikely.

DOMESTIC BONDS

IN THE Japanese government bond market, prices edged up slightly during the European trading day, gaining ground as G-7 finance ministers attending the IMF annual meeting in West Berlin reiterated their determination to see the dollar stabilise.

The yield on the benchmark 105th government bond closed at 5.05 per cent in Tokyo down 0.02 of a point from Monday. In Europe, the yield fell further to 5.04 per cent.

The dollar's strength against the yen had earlier this month caused short-term interest rates in Japan to rise sharply, anticipating a rise in the discount rate to support the currency.

Meanwhile, the flagging health of 87-year old Emperor Hirohito remains a significant factor in the Japanese government bond market, a phenomenon of some mystery to Europeans.

While preferring not to discuss the matter publicly – "Emperor-worship is out these days" one Japanese dealer said – trading volumes have fallen sharply.

It seems that the senior officials running the Japanese banks and securities firms in Tokyo feel it is unseemly to concentrate too closely on making a profit when the Emperor is so ill. Indeed, the Tokyo stock exchange and other financial markets are expected to close for a least a day in the event of his death.

In mid-afternoon, a Japanese news agency flashed the news that the Emperor's health had stabilised. "What happens if he goes on like this for six months?" said a trader

BENCHMARK GOVERNMENT BONDS

				Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	110-26	+24/32	10.13	10.40	10.47
		8.750	9/97	93-18	+22/32	9.85	10.02	10.11
		9.000	10/08	98-00	+15/32	9.22	9.36	9.44
US TREASURY*		9.250	8/98	101-19	+2/32	9.00	8.97	9.39
		9.125	5/18	100-14	+2/32	9.08	9.06	9.43
JAPAN	No 105	5.000	12/97	99.8108	0.251	5.03	5.18	5.28
	No 2	5.700	3/07	104.1726	0.437	5.26	5.37	5.42
GERMANY		6.500	5/98	99.3500	-0.050	6.51	6.50	6.69
FRANCE	BTAN	9.000	7/93	101.7578	-0.058	8.34	8.38	8.67
	OAT	8.500	6/97	98.5750	-0.025	8.54	8.64	9.08
CANADA*		9.500	10/98	98.2500	-0.250	10.09	10.02	10.34
NETHERLANDS		6.500	7/98	100.0250	-0.175	6.43	6.45	6.64
AUSTRALIA		12.500	1/98	103.3642	0.386	11.88	11.71	11.93

London closing, *denotes North American morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Italy may refinance Euronote floaters

By Our Euromarkets Staff

ITALY MAY be about to join the ranks of sovereign borrowers refinancing their old, floating-rate Euronotes with cheaper money to be obtained in the swaps market.

Ten days ago, Sweden called a $500 Eurobond due 2005 while in August, the UK called its $2.5bn floating rate notes.

Rumours swept the bond markets yesterday that Italy's $1.0bn notes due 1989/94 will be called on November 14. The call notice must be made by October 14. The notes pay interest at ⅛ under the mean of London interbank offered and bid rates, known as Limean.

Italy's notes, which are due to have the coupon reset on November 14 at a much higher rate than its current 7$\frac{1}{2}$ per cent, should be trading comfortably over their par issue price in anticipation of the higher yield ahead. Yesterday, the bonds closed at around 99.94 per cent.

In short, sovereign and para-statal borrowers are calling their issues where possible because they have found it is cheaper to borrow fixed-rate funds and swap the proceeds into floating rate funds.

Italy, for instance, is seen as able to command interest rates as low as those on a recent issue launched by theFrench government-owned Crédit Foncier. That borrower launched a *seven-year fixed rate bond that* when swapped into floating rate-funds, achieved a rate of 30 to 35 basis points under Libor.

● The Italian Treasury's end-September offer of short-term bills was heavily oversubscribed, although lively demand for the three and 12-month bills contrasted with undersubscription for six-month bills, writes Our Financial Staff.

Demand for the short-term bills totalled L36,180bn, compared with an offering of L29,250bn. The issue was to replace L24,367bn of bills expiring at the end of the month, of which L22,533bn were in the hands of dealers.

Demand for the three-month bills totalled L14,603bn, compared with the offering of L8,250bn.

German banks at idealogical odds

Haig Simonian on a policy clash over Third World borrowing

The choice of West Berlin for this year's annual meetings of the World Bank and the International Monetary Fund has trigerred no mean controversy, given the city's reputation for political and social fireworks.

But many have been expecting the sparks to fly almost as fast in the more rarified world of German banking in view of the much-reported differences between Mr Alfred Herrhausen, chief executive of Deutsche Bank, and most of the German banking community over how to treat Third World debt.

Hints in the past by Mr Herrhausen regarding some limited form of debt forgiveness for some of the world's poorest countries have set off a storm of criticism among other leading German bankers, let alone among far less well provisioned foreign banks.

The Germans are certainly in a more privileged position than most when it comes to provisions against their problem third-world loans. Generous tax treatment means the huge sums leading German banks have already set aside are the envy of many foreign counterparts.

Few banks release precise details of their provisions, but Mr Herrhausen disclosed earlier this year that his bank had set aside 76 per cent of its debts to the world's most-troubled borrowers as at end-1987.

Other German banks are more coy. But none is believed to have provisioned at quite so high a level. Dresdner Bank, Germany's second biggest bank, may have set aside some 50 per cent of its exposure while some big Landesbanken (state banks) are thought to have provisioned up to about a third.

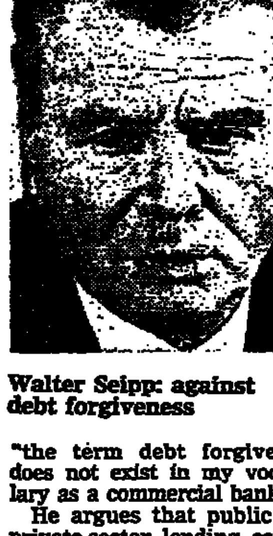
It has been a hard slog for some. Westdeutsche Landesbank, the country's fourth biggest bank, only restarted paying dividends on its earnings in 1986 after a lengthy gap. Despite consistent profitability, income had been diverted into pumping up its loan provisions instead.

Some German bankers steadfastly refuse even to hint at their provision levels. Mr Walter Seipp, Commerzbank's chief executive, explains his reluctance by pointing to the differences over criteria and the lack of common standards on methods of calculation.

He has restricted himself to saying that Commerzbank's provisions are "substantial." The bank has "more than fulfilled any requirement set by other countries such as Switzerland, the UK or Holland," he said earlier this week.

However, the present differences between German bankers have less to do with the size of the provisions than what to do with them. Many industry observers expected a sharp clash in Berlin this week between Mr Herrhausen and most of his counterparts over the question of debt forgiveness.

The very idea of forgiveness makes some German bankers *see red. According to Mr Seipp,*



Walter Seipp: against debt forgiveness

"the term debt forgiveness does not exist in my vocabulary as a commercial banker."

He argues that public and private-sector lending cannot be treated the same way. While the decision by the G7 countries to forgive some claims on the poorest debtors is "not surprising" and "quite appropriate and necessary," a very different set of rules applies to commercial bank debt, he said.

"If you start with any kind of debt forgiveness, it would begin a process which would erode the grounds on which our civilisatian is based," argued Mr Seipp, a lawyer by training and clearly a strong believer in the sanctity of principles and contracts.

"You have to stick to your arguments, or else you get to a situation where you don't know where you will end up," he added. No surprise then that "as far as my bank is concerned, we will not agree on any sort of debt forgiveness."

Mr Friedel Neuber, chief exeuctive of WestLB, which is believed to have the highest Mexican exposure of any German bank, sees matters in much the same light – if expressed somewhat less forcefully.

"General forgiveness towards restructuring countries would distance the countries concerned from the capital markets for a certain time. In my opinion, that would not help a long-term recovery by these states, and could actually make it appreciably more difficult," he said.

But despite the high chances

Alfred Herrhausen: arguing for debt relief

of a showdown in Berlin between leading German bankers, the dispute on forgiveness has not been allowed to burst out into the open as conspicuously as many had expected.

The main reason has been Mr Herrhausen's circumspection. At an important international conference where Germany's banks are playing hosts, it may be in every German banker's interest to keep the dispute within bounds.

Thus Mr Herrhausen has taken care to express himself very cautiously on the subject of forgiveness in Berlin this week. In a speech on Monday, his language was cautious and carefully hedged.

For a start, there was no question of "forgiveness," he noted. Rather, it was a matter of "debt relief" on strictly case-by-case basis.

Mr Herrhausen reckoned that, despite all the solutions put forward, the debt crisis had got worse in terms of the financial burdens on many poor borrowers. And relief for some creditor banks could not be equated with similar gains for many debtors.

He argued strongly that some of the new techniques introduced in the debt crisis in recent years, such as debt for equity swaps or the Mexico exit bonds, implied an element of tacit forgiveness, even if bankers chose not to recognise it as such. Likewise the decision to take a loss and sell debt on the secondary market.

Other innovations in the debt crisis, such as debt-equity swaps, the Mexico exit bonds or now the "menu approach" to debt problems, had all been regarded sceptically at the outset, he said. However, they had all now become part of the accepted package of measures at banks' disposal in dealing with their debt problems.

Thus the key point was just to get the idea of "debt relief" on the agenda, he argued. Previous experience in the debt crisis had shown that having a range of options had been helpful to banks and borrowers

Mr Herrhausen rejected claims that Deutsche Bank was breaking ranks with its counterparts. "Deutsche Bank does not require any advice on solidarity." But that did not mean that "for reasons of solidarity we should stop thinking," he said. The readiness to say that debt relief cannot be ruled out "is the only way in which I essentially distinguish myself from my other colleagues," he asserted.

It was a polished and subtle performance. But it was sometimes hard to avoid the impression that the subtlety was occasionally serving more as camouflage than a serious debating point.

With German bankers very much in the spotlight in Berlin, and the Federation of German Private Banks – to which all the big banks belong – due to make its own joint statement on the subject shortly, attempting to present a solid German façade to the debt crisis has become a priority in Berlin.

Thus while Mr Herrhausen has certainly not given up his opinions about enriching banks' options by adding the possibility of selective debt relief, in the context of Berlin, he has gone about it in an understandably cautious way.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tuesday September 27 1988: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act. at 25%)	Est. P/E Ratio (Net)	xd adj. 1988 to date	Mon Sep 26 Index No.	Fri Sep 23 Index No.	Thu Sep 22 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (210)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 Building Materials (29)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Contracting, Construction (37)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Electricals (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Electronics (28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Mechanical Engineering (58)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 Metals and Metal Forming (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Motors (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 Other Industrial Materials (23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 CONSUMER GROUP (185)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers (21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing (21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health and Household (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Leisure (30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31 Packaging & Paper (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Publishing & Printing (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores (34)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS (93)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Agencies (19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals (21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Shipping and Transport (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Telephone Networks (2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Miscellaneous (26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (488)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (121)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (50)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial (30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (78)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
81 Mining Finance (2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
91 Overseas Traders (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (709)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE 100 SHARE INDEX †	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2368.3

FIXED INTEREST

PRICE INDICES	Tue Sep 27	Day's change %	Mon Sep 26	xd adj. today	xd adj. 1988 to date
British Government					
1 5 years	119.36	+0.46	118.82	[illegible]	[illegible]
2 5-15 years	136.08	+0.60	135.47	[illegible]	[illegible]
3 Over 15 years	146.33	+0.63	145.42	[illegible]	[illegible]
4 Irredeemables	167.44	+0.49	166.63	[illegible]	[illegible]
5 All stocks	133.25	+0.56	132.60	[illegible]	[illegible]
Index-Linked					
6 5 years	127.76	+0.89	127.64	[illegible]	[illegible]
7 Over 5 years	121.58	+0.85	121.52	[illegible]	[illegible]
8 All stocks	121.92	+0.85	121.85	[illegible]	[illegible]
9 Debentures & Loans	115.59	+0.02	115.56	[illegible]	[illegible]
10 Preference	87.81		87.81	[illegible]	[illegible]

AVERAGE GROSS REDEMPTION YIELDS			Tue Sep 27	Mon Sep 26	Year ago (approx.)
British Government					
1	Low Coupons	5 years	[illegible]	[illegible]	9.62
2		15 years	[illegible]	[illegible]	9.91
3		25 years	[illegible]	[illegible]	9.74
4	Medium Coupons	5 years	[illegible]	[illegible]	10.32
5		15 years	[illegible]	[illegible]	10.17
6		25 years	[illegible]	[illegible]	9.94
7	High Coupons	5 years	[illegible]	[illegible]	10.41
8		15 years	[illegible]	[illegible]	10.34
9		25 years	[illegible]	[illegible]	9.99
10	Irredeemables		[illegible]	[illegible]	9.96
Index-Linked					
11	Inflation rate 5%	5yrs	[illegible]	[illegible]	3.47
12	Inflation rate 5%	Over 5 yrs	[illegible]	[illegible]	4.13
13	Inflation rate 10%	5yrs	[illegible]	[illegible]	3.49
14	Inflation rate 10%	Over 5 yrs	[illegible]	[illegible]	4.13
15	Debs & Loans	5 years	[illegible]	[illegible]	11.68
16		15 years	[illegible]	[illegible]	11.51
17		25 years	[illegible]	[illegible]	11.34
18	Preference		[illegible]	[illegible]	10.97

†Opening index 1789.0; 10 am 1783.0; 11 am 1779.7; Noon 1793.5; 1 pm 1805.6; 2 pm 1808.3; 3 pm 1810.0; 3.30 pm 1806.4; 4 pm 1808.7
† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	103	7	2
Corporations, Dominion and Foreign Bonds	29	1	19
Industrials	419	374	809
Financial and Properties	164	133	366
Oils	27	26	53
Plantations	3	0	10
Mines	61	32	99
Others	40	101	133
Totals	846	674	1,491

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1988 High	1988 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
Ir65p	F.P.	21/10	128	73	Barlo Group Ir10p	74		a050%	2.8	5.6	12.5
§145	F.P.	-	173	165	Christie Group 2p	165	-1	L3.5	3.1	2.8	15.2
100	F.P.	-	113	110	*Cupid 10p	110	-1	b2.0	6.4	2.4	8.7
[illegible]	F.P.	-	41	36	Exmoor Dual Inv. Tst.	38		1.2	-	4.1	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. date	1988 High	1988 Low	Stock	Closing Price £	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -
Ir180	Nil	27/10	80pm	65pm	Allied Irish Banks	79pm	+1
155	Nil	26/9	37pm	13pm	Blagden Industries	29pm	-4
15	Nil	28/10	5½pm	4¼pm	Charterhall 5p	4½pm	-½
150	Nil	28/10	10pm	6pm	EBC Group 50p	6pm	-1
76	Nil	-	11pm	8pm	Elliott (B)	11pm	
145	Nil	10/10	19pm	12pm	Ellis & Everard	12pm	-1
10	F.P.	5/10	24	16	§F & H Group 10p	21	
325	Nil	8/11	27pm	19pm	First Technology	20pm	
20	Nil	4/11	8½pm	5½pm	*Honorbilt Group 5p	5½pm	-1
100	Nil	21/10	200pm	150pm	Jermyn Inv. Co.	150pm	
150	Nil	-	41pm	28pm	§Kenyon Securities	28pm	
75	Nil	26/10	4pm	2pm	Leisuretime Intl. 10p	2pm	
10	Nil	30/9	13pm	6pm	*Lynx Tech. 5p	6pm	-1
Ir142½	Nil	-	20pm	18pm	Silvermines Ir2½p	19pm	-1
200	Nil	11/11	40pm	7½pm	Ultramar	39½pm	+5
125	Nil	4/11	97pm	30pm	Wassall 5p	92pm	-2

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. H Dividend and yield based on prospectus or other official estimates for 1989. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ◊ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ‡ Unlisted securities market. ◊ Official London listing. □ Including warrants entitlement. * Third Market.

TRADITIONAL OPTIONS

- First Dealings Sep 26
- Last Dealings Oct 7
- Last Declarations Dec 27
- For settlement Jan 9

For rate indications see end of London Share Service

Stocks dealt in for the call included Trusthouse Forte, Underwoods, Dares Estates, Brent Walker, English China Clays, Holmes Protection, ASDA, Greenall Whitley, Astra Holdings, Capital and Regional Properties, Trusthouse Forte Warrants, Lonrho, Blacks Leisure, WA Holdings, Mountleigh and Barratt Developments. No puts or double options were reported.

LONDON TRADED OPTIONS

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Allied Lyons (*449)	390	62	74	85	3	9	12
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		Calls Nov	Calls Feb	Calls May	Puts Nov	Puts Feb	Puts May
LASMO (*547)	500	66	92	107	24	38	45
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

September 27 Total Contracts 49,073 Calls 32,396 Puts 16,677
FT-SE Index Calls 5354 Puts 7023
*Underlying security price.

INTERNATIONAL CAPITAL MARKETS

Strong dollar sparks $800 issues

By Dominique Jackson

EUROBOND syndicate teams took advantage of the latest wave of enthusiasm for the US currency yesterday and two new dollar straight deals, totalling $800m, were launched on to an bullish market. The Japanese equity warrant sector also saw a crop of new issues which met a mixed reception.

J.P. Morgan won a keenly contested market to lead a jumbo $600m seven-year issue for the Canadian province of Alberta which emerged carrying a 9⅜ per cent coupon and priced at 101, offering a spread of 44 basis points over comparable Treasury issues.

The lead manager said the deal, which was not swapped, saw good demand from both Middle Eastern and European accounts and shortly after launch, the spread tightened markedly. The borrower carries a AA1/AA+ credit rating. Dealers reported some demand for the deal from Canadian investors. By the end of the day, it was bid at a discount of 1.70, just inside its total fees.

IBJ International led the day's other dollar straight for the Japan Development Bank which carries the guarantee of Japan, making it a top AAA credit. The deal saw brisk initial demand, partly attributable to the paucity of top sovereign equivalent borrowers in both the sector itself and at that particular maturity.

The swap package was arranged exclusively in London and the lead manager said a high proportion of interest was detected from UK-based funds. However, a portion of the deal was expected to find its way back to Japanese accounts eventually. It was well bid at a discount of 1.65 against fees of 1⅞.

Although the primary market was affected by rumours of an imminent jumbo, possibly as much as $1bn issue, for Italy – the refinancing of an outstanding floating rate note, dealers said the terms of both issues were well received, particularly the seven-year maturity which is slightly longer than that seen on the bulk of new dollar straights seen recently.

The longer maturities indicate an upturn in confidence in the sector, particularly in comparison with the many unusually short two and three-year maturities seen earlier this year. However, some dealers suggested that a less prestigious borrower than the two seen yesterday might not have had as much success tapping the seven-year sector.

If the Alberta issue proves to be a liquid and well-traded one, it could well provide an important new benchmark for the sector at that maturity. Dealers were less optimistic about the prospective liquidity of the JDB issue.

The Japanese equity warrant sector saw four new deals, the most to emerge simultaneously in the sector for some time.

New Japan Securities was the lead manager on a $50m four-year issue for Shikoku Chemical. Nakanogumi, the construction and real estate group, came with a four-year $40m deal through Yamaichi. The coupon on these two smaller deals was indicated at 5⅜ per cent.

Nikko Securities brought a four-year $100m issue indicated at 5 per cent for Mitsubishi Plastics Industries while Nomura led an issue on identical terms for Towa Real Estate.

These followed two new equity warrants deals which emerged on Monday. Sector specialists said the recent marked slowdown in issuance had certainly led to an improvement in sentiment, although the market could be affected by the anticipated closure of Tokyo markets, if and when Emperor Hirohito dies.

Dealers agreed the most striking characteristic of the current market was increased investor selectivity with a handful of companies attracting serious interest and the bulk of other deals largely dependent on lead manager support. One senior dealer pointed out that of the 10 most recent issues in the sector, only a single deal, Monday's $100m four-year issue for Mitsubishi Mining & Cement via Nomura, was trading at a premium above its par issue price. It was quoted bid at 101¼ yesterday with the other issues reportedly well supported at levels around their total fees.

DG-Bank led a DM100m equity warrant deal for Ryobi, the die-casting manufacturer. The coupon on the seven-year deal is indicated at 3 per cent and it was quoted bid at a discount of 2½ against fees of 2¼.

Secondary Euromark prices eased marginally in fairly low volume yesterday. The primary market was quite active in selected issues but some of the most recently launched deals coming under pressure, largely as a result of the heavy volume of new issues seen in the last week. The latest 6 per cent 10-year World Bank issue slipped 20 basis points yesterday while Monday's DM200m issue at the same maturity for The African Development Bank slumped to be bid at a discount of 3¼.

The NZ$60m issue for the Commonwealth Bank of Australia launched on Monday by Hambros reportedly satisified demand in this sector of the market at the five-year maturity. The deal carries the Commonwealth of Australia guarantee and saw brisk retail demand, bid yesterday at a discount of 1⅞, well within its total fees.

Prices were basically unchanged in low volume in Switzerland. Commerzbank's recent SFr100m five-year issue finished its second day's trading at 100¼ against its issue price of 100¼.

S.G. Warburg Soditic led its first Japanese equity-linked issue, a SFr50m 5¼-year convertible for Kanematsu Electronics on which the the coupon was indicated at ½ per cent.

INTERNATIONAL BONDS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Province of Alberta◆	600	9⅜	101	1995	1⅞/1¼	J.P. Morgan Secs.
Japan Dev. Bank◆	200	9⅜	101	1995	1⅞/1¼	IBJ Int.
Towa Real Estate‡	100	(5)	100	1992	2¼/1½	Nomura Int.
Mitsubishi Plastics‡	100	(5)	100	1992	2¼/1½	Nikko Secs.(Europe)
Shikoku Chemicals‡	50	(5⅜)	100	1992	2¼/1½	New Japan Secs.
Nakanogumi Corp.‡	40	(5⅜)	100	1992	2¼/1½	Yamaichi Int.(Eur)
D-MARKS						
BfG Finance Co.◆	200	6	100¾	1993	2/1¼	Bk fuer Gemeinwirtschaft
Ryobi Ltd.‡	100	(3)	100	1995	2¼/1½	DG Bank
SWISS FRANCS						
Lion Corp.§★★(a)	150	(½)	100	1993	n/a	Credit Suisse
Pokka Corp.§★★(b)	100	(½)	100	1993	n/a	Credit Suisse
Kanematsu Elec.§★★(c)	50	(½)	100	1994	1¾/1⅝	Warburg Soditic
Sinko Kogyo Co.§★★(d)	30	(½)	100	1993	n/a	Handelsbank NatWest
Haneda Hume Pipe§★★(e)	30	(1½)	100	1994	n/a	Handelsbank NatWest
GUILDERS						
Nat. Nederlanden♠★★(f)◆	75	½	98¾	1993	2/1⅛	Bank Mees en Hope

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. ◆Final terms. ♠With bond warrants. Indicated puts: a) 30/6/91 at 109¾ to yield 3.939. b) 30/4/91 at 109 to yield 3.922. c) 31/3/91 108¾ to yield 3.984. d) 30/6/91 at 109¾ to yield 3.979. e) 31/3/91 at 105 to yield 3.492. f) Right to subscribe to Fl75m 5yrs 11% 100 bond between May and Oct. 89.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on September 27

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	94	94½	0	+0¼	9.53
All Nippon Air 9⅞ 97	100	†95¼	95¾	+0¼	+0¼	10.16
Amer. Brands 8⅞ 92	150	–	–	–	–	–
A/S Eksportfinans 7⅝ 93	100	†93½	94	-0¼	-0¼	9.17
A/S Eksportfinans 7¼ 92	150	94⅛	94⅝	+0⅛	+0⅛	9.27
Barc. Bk. Fin. 10¼ 89	200	†101⅛	101⅝	+0⅝	+0⅝	8.94
B.F.C.E. 7 92	150	93¼	93¾	0	0	9.22
British Telecom 7⅝ 96	250	90¼	90¾	+0⅛	+0⅛	9.36
Cal.Natl.Telecom 8½ 93	160	†97	97½	-1¼	-1¼	9.26
Canada 9 96	1000	98⅞	99⅜	-0⅛	-0⅛	9.15
Canadian Pac 10⅛ 93	100	†102½	103½	0	0	9.90
C.C.C.E 7⅛ 91	113	–	–	–	–	–
C.C.C.E 9¼ 95	300	98⅞	99⅜	-0¼	-0¼	9.42
C.N.C.A 7¼ 91	150	94⅛	94⅝	-0¼	-0¼	9.28
Credit Lyonnais 9 91	200	–	–	–	–	–
Credit National 8¼ 93	200	96	96½	-0⅛	-0⅛	9.27
Credit National 7⅝ 92	100	94¼	94¾	-0½	-0⅛	9.22
Credit National 7¼ 91	150	94⅜	95	-0⅝	-1⅛	9.23
Denmark 7⅛ 92	500	–	–	–	–	–
E.E.C. 7 91	100	94⅛	94⅝	-0⅜	-0⅜	9.10
E.E.C. 7¼ 93	250	92⅞	93⅜	0	-0⅛	9.18
E.E.C. 8 90	350	98⅛	98½	0	-0⅛	9.05
E.I.B. 7⅝ 93	100	93⅜	93⅞	-0¼	-0⅜	9.20
E.I.B. 9⅞ 97	150	99¾	100⅜	0	0	9.37
Elec.De France 9 98	200	96½	97	-0⅛	-0⅜	9.52
Finland 7⅞ 97	200	90⅛	90⅝	-0⅛	-0⅛	9.59
Finland 7½ 93	200	92⅞	93⅜	-0⅜	-0⅜	9.29
Finn.Exp.Cd. 8½ 92	200	97½	98	-0⅛	-0⅛	9.26
Ford Motor Credit 8 91	250	97⅛	97⅝	-0⅝	-0⅝	9.19
Gen Elec Credit 10¼ 00	200	100¼	100¾	0	0	10.16
G.M.A.C. 8 89	250	–	–	–	–	–
Gen.Mtrs.Corp. 9⅛ 92	200	99⅜	99⅞	-0⅛	-0⅛	9.23
Halifax BS 9½ 93	200	†99½	100	-0⅛	-0⅛	9.54
Hoesch 8¼ 97	100	†92¾	93¼	-1¾	-1¾	9.47
Italy 9 90	1000	–	–	–	–	–
L.T.C.B of Japan 8 91	100	97⅛	97½	-0½	-0⅜	9.11
L.T.C.B. of Japan 8 97	200	89⅝	90⅛	-0¼	-0⅜	9.82
Mercds-Benz Cd. 8½ 95	100	†96½	97	+0¼	+0¼	9.17
Metropolis Tokyo 9½ 93	200	100¾	101¼	-0⅜	-0⅜	9.18
Morgan Guaranty Tst. 7 90	150	–	–	–	–	–
Norway 8¾ 93	500	98⅜	98⅞	-0¼	-0⅜	9.11
Pepsico Inc 7⅞ 93	200	†93¼	93¾	0	-0⅛	9.14
Portugal 8¼ 91	300	–	–	–	–	–
Prudential Crp. 8¾ 94	125	98	98½	0	0	9.14
Qantas Airways 10⅜ 95	140	103¾	104⅜	0	0	9.53
Saskatchewan 10¼ 92	100	103⅞	104⅜	0	0	9.25
State Bk S Aust 9¼ 93	100	99⅛	99½	0	-0¼	9.44
Swed Exp Cred 7¼ 91	100	†94¼	94¾	-0⅛	-0⅛	9.28
Swed Exp Cred 10 92	100	–	–	–	–	–
Sweden 7 91	250	94½	95	-0⅜	-0⅜	9.05
Sweden 7 92	250	†93¾	94¼	+0⅛	+0⅛	9.12
Sweden 8¾ 96	200	96⅛	96⅝	-0⅛	-0¼	9.43
Sweden 8½ 92	200	†98¾	99¼	0	+0¼	8.80
Victorian Rep 11⅝ 92	150	106½	107	-0⅛	+0⅛	9.29
World Bank 7 92	300	†93⅞	94⅜	-0⅛	-0⅛	9.09
World Bank 9 97	300	97⅞	98¼	0	+0⅛	9.33
Yasuda Trust Fin 8½ 93	100	96⅛	96⅝	-0⅜	-0¼	9.46

Average price change... On day -0⅜ on week -0½

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	100⅞	101⅜	-0⅛	0	5.75
Avis Fin.SVS 5⅞ 92	100	†100⅛	100⅝	+0¼	+0⅛	5.74
Bank of Tokyo 5¼ 93	100	†99¼	99¾	-0½	-0¼	5.87
Central BK. Turkey 7 92	200	†102½	103	0	0	6.20
Commerzbank o/s. 5⅛ 93	300	†99¼	99¾	0	+0⅞	5.50
Degussa Int. 6⅛ 97	200	98⅝	99⅜	0	+0¼	6.27
E.I.B 5½ 98	150	95⅞	96⅝	-0⅛	-0⅛	6.02
E.I.B 6 97	300	99¼	100	-0⅛	-0¼	6.05
E.I.B. 6⅛ 96	300	100⅝	101⅜	-0⅛	-0⅛	5.96
E.I.B. 6⅛ 97	400	99⅞	100⅝	-0¼	-0¼	6.08
E.I.B. 6⅞ 95	300	104⅞	105⅝	0	+0¼	5.95
Euro.Coal & Steel 5⅞ 97	175	98⅛	98⅞	-0⅜	-0½	6.10
Eurofima 6¼ 96	100	102⅜	103⅛	+0¼	+0⅞	5.79
Elec De France 5¾ 97	300	96⅞	97⅝	-0⅜	-0⅛	6.16
Forsmark Krtg. 5⅛ 93	200	97½	98	0	-0¼	5.71
I.A.D.B. 6 97	200	98⅞	99⅝	0	+0¼	6.11
Japan Dev. Bk. 5⅞ 95	300	96¾	97½	-0⅛	-0⅜	5.91
Japan Finance 5¾ 97	100	96⅜	97⅛	0	+0⅛	6.25
Ireland 6½ 97	300	†99¾	100¼	0	0	6.49
Korea Dev BK 6⅝ 93	100	101⅞	101⅞	-0¼	+0⅝	6.23
Malaysia 6¼ 94	150	99⅜	100⅛	0	0	6.30
Nat. West BK. PLC 6 98	300	96⅞	97⅝	+0¼	+0¼	6.39
Nippon Telg.&Tel. 6 95	400	100⅞	101¼	+0⅛	+0⅝	6.02
Oesters. Kontbk. 5 93	300	97½	98¼	0	+0⅛	5.56
Portugal 5¾ 92	150	99⅞	100⅝	0	+0⅛	5.67
Portugal 6⅝ 95	150	101⅝	102⅝	0	+0⅛	6.25
Privatbanken 5¾ 93	150	96⅞	97⅝	0	+0¼	5.97
Royal Insurance 5½ 92	300	†100	100½	+0⅛	+0¼	5.41
Soc Cent Nuclear 7¼ 95	150	103⅜	104⅛	0	0	6.54
Turkey 6½ 95	500	98	98½	0	0	6.83
Westlb. Finance 5 93	200	†97¼	97⅝	-0⅛	-0⅛	5.64
World BK. 6¼ 97	600	100⅝	101⅜	-0¼	-0⅛	6.03

Average price change... On day 0 on week +0

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5 96	150	†101½	101¾	0	-0¼	4.74
Asfinag 5 03	100	†100¼	101¼	0	-0⅜	4.90
B.F.C.E. 4½ 98	200	†98	98¼	+0¼	+0¼	4.74
B.M.W.Fin.Neth. 5 13	150	†95	95½	-0⅛	+0⅝	5.35
Britannia B/S. 4¼ 94	100	†97½	98	+0⅛	+0¼	4.70
CIR. Int. W/W 3 93	125	†99½	100	-0⅜	-1½	3.03
Credit Lyonnais 4¾ 00	100	†97¼	98	0	0	4.99
E.I.B 4⅝ 98	150	†99½	99¾	+0¼	0	4.67
Fletcher Chall. 4⅞ 98	150	†96½	97	0	0	5.31
Kobe City 4⅝ 98	150	†98½	99	0	-0⅛	4.79
Leeds Perm. B/S. 4⅛ 93	200	†98½	99	-0⅛	+0⅛	4.43
Malaysia 5¼ 98	100	†98¾	99	0	0	5.40
Maxwell Comm.Crp. 5 95	150	†102¼	103	-0⅛	+0¼	4.53
Nationwide Ang.B/S. 4 93	200	†97	97¼	+0⅛	+0⅛	4.69
Nippon Telg.&Tel 4¼ 95	200	†99	99½	-0⅛	-0⅜	4.38
Oesters.Ktbk. 5 03	75	†99¼	99½	-0⅜	-0⅜	5.06
Rep.National Bk. 4 93	150	†96	97	0	0	4.40
Thailand 4⅝ 95	200	†95½	96	+0¼	+0½	5.39
World Bank 5 03	150	†99¼	99½	0	+0¼	5.06

Average price change... On day 0 on week 0

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅜ 92	55	101¼	101½	0	+0¼	5.00
Belgium 4⅝ 94	45	96⅝	97	0	+0⅛	5.30
Canada 4⅜ 92	80	97⅞	98⅛	0	+0⅛	4.97
Elec. De France 5⅛ 94	20	99⅞	99⅞	+0⅛	+0¼	5.20
Ireland 5⅛ 93	30	99¼	99⅝	0	+0¼	5.27
Norway 5⅛ 95	50	98⅞	99⅛	+0¼	+0¼	5.30
Rep. of Italy 5¾ 92	150	102⅜	102⅝	0	+0¼	4.92
Sweden 4⅝ 93	50	97⅞	98⅛	0	+0⅛	5.11
World Bank 5½ 92	50	102⅛	102⅜	+0⅛	+0⅛	4.86

Average price change... On day +0 on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat.BS.10¼ 93 £	50	98⅝	99⅛	+0⅛	+1	10.55
Alg. Bk. Ned. 5½ 92 FL	150	97¾	98¼	0	+0⅛	6.16
Amro Bank 6¼ 92 FL	150	100¼	100⅞	0	-0⅛	6.10
Aust.Ind.Dev. 12⅞ 93A$	100	97⅝	98⅛	+0¼	-0⅝	13.47
Barc. Bk. 10¼ 97 £	250	96	96½	+0¼	+1⅛	10.90
BP Capital 9¾ 93 £	100	96⅝	97⅛	+0½	+0⅜	10.62
British Airways 10 98 £	100	94	94½	+0⅝	+1	10.99
C.I.B.C.Mort.10¾ 93 C$	100	†98¾	99¼	0	0	11.01
Comm.Bk.Aust. 12⅝ 93A$	100	96¾	97⅜	0	-0¼	13.44
Coop.Ctr.Rabo.6¼ 93 FL	100	100¼	100¾	0	-0⅛	6.10
Coop.Ctr.Rabo.6 92 FL	200	99¾	100¼	0	-0¼	5.99
Denmark 7¾ 92 ECU	100	101	101½	0	+0¼	7.29
Dixons 11 95 £	90	†98⅜	98⅞	+0⅜	+1	11.46
Deutsche Bank 9⅞ 97 £	75	†94	94½	+0½	+1⅛	10.92
Deut. Bk.Aust.12¾ 95 A$	70	99⅛	99½	+0¼	0	12.88
Eastman Kodak 13 90 A$	100	99⅛	99½	+0⅛	-0⅛	13.43
E.I.B 8⅝ 93 LF	10	†100¾	101¾	0	0	8.25
Elec.France 10¼ 95 C$	125	†98¾	99¼	0	+0¼	10.44
Euratom 7¾ 97 ECU	145	96⅝	97⅛	-0⅛	0	7.88
Eurofima 7½ 92 FL	50	†104½	105¼	0	0	5.94
Fed.Bus.Dv.Bk.9¾ 92 C$	75	†97¾	98¼	0	-0¼	10.39
Ford Cr.Can.10¼ 93 C$	100	†100⅛	100⅝	0	-0¼	10.60
Gillette Can. 9⅝ 93 £	70	†92¼	92¾	0	+0⅞	11.70
G.M.A.C. 9¾ 93 C$	150	†97	97½	0	+0⅛	10.50
G.M.A.C. 9¾ 92 C$	75	†94¼	95¼	0	+0⅛	11.04
G.M.A.C Aus.Fin.14 90 A$	50	99⅞	100⅜	+0⅛	0	13.82
Halifax BS 10⅞ 97 £	100	96⅛	96½	+0¼	+0⅞	11.06
Imp Chem Inds 10 03 £	100	†94½	95	-0⅜	+0½	10.71
Inv.Industry Int.10 93 £	60	96⅞	97⅜	+0½	+1	10.80
Lloyds Bank 10¼ 98 £	150	94⅛	94⅝	+0½	+0⅝	11.22
Montreal Tst.10¼ 93 C$	100	†99⅜	99⅞	0	-0⅛	10.83
Mtge.Bk.Den. 6¾ 91 FL	100	100½	101	0	+0⅛	6.38
Nat. West.Bk.13¼ 92 A$	50	†97⅞	98⅜	+0¼	-0¼	13.71
Nationwide BS 10⅛ 93 £	75	97⅜	97⅞	+0½	+1¼	10.78
Ned.Midd.Bank 6 92 FL	150	99⅝	100	0	+0⅛	6.11
New Zealand 9½ 93 £	100	95⅛	95⅝	+0½	+0⅞	10.80
New Zealand 7¾ 93 ECU	200	100	100½	0	+0⅛	7.66
Oesters.Ktbk.13⅝ 94 A$	75	101⅜	101⅞	+0¼	-0¼	13.22
Prudential Fin.9⅞ 07 £	150	†89¼	89¾	+0¼	+2	10.68
Royal Bk.Scot.10⅝ 98 £	125	96⅜	96⅞	+0⅝	+1⅜	11.25
Saskatchewan 9⅞ 91 C$	150	†98¼	99	0	-0⅛	10.43
S.D.R. 7¼ 95 ECU	90	†99⅛	99⅝	-0⅛	-0⅛	7.86
Wstd.Lb.Fin. 12½ 93 A$	50	†99	99½	0	-0¼	12.67
World Bank 5¾ 92 FL	100	99⅝	100	0	+0⅛	5.86
World Bank 13⅜ 92 A$	100	†100⅛	100⅝	+0¼	+0⅛	13.20

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic. Bld 94 £	.08	99.40	99.45	21/01	10.99
Belgium 91 US	0	100.44	100.54	21/02	9
Britannia 5 93 £	0⅛	99.74	99.79	10/10	10.37
Chase Manhattan Crp.91 US	0 1/16	99.54	99.67	22/02	8.94
Citicorp 98 US	†0¼	97.55	97.80	30/11	8.94
EEC 3 92 DM	†0	100.92	101.02	22/02	5.63
Halifax BS 94 £	.1	99.66	99.71	9/11	11.16
Inst. In Industry 94 £	0	99.92	100.03	24/02	11.87
Leeds Perm. B/S. 94 £	0⅛	99.94	99.99	13/01	10.44
Midland Bank 01 £	.1	95.00	96.00	11/02	12.41
Milk Mkt.Brd. 5 93 £	0 1/16	99.84	99.89	30/09	10
New Zealand 5 97 £	.07	99.73	99.83	18/11	11.62
New Zealand 5 01 US	0	99.92	100.02	4/02	8.62
State Bk. Nsw. 98 US	.188	100.41	100.51	13/02	8.87
Woolwich Equit.BS. 93 £	0⅛	99.69	99.74	13/10	10.44
Woolwich 5 95 £	0⅛	99.56	99.61	21/11	11.62

Average price change... On day +0.00 on week +0.02

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US	8/87	62.	102¼	103⅛	+0⅛	24.76
Alco Health 6¼ 01 US	†7/86	26.25	102	104	0	9.77
Amer. Brands 7¾ 02 US	9/87	56.7	101	101¾	-0¼	12.16
Ashikaga Bank 2½ 02 US	4/87	967.	125½	127⅛	+0⅞	-2.03
Asics 5 92 DM	12/83	472.7	193¼	194¾	-0½	15.44
CBS. Inc. 5 02 US	4/87	200.	93⅜	94⅜	+1⅛	11.50
Fujitsu 3 99 US	5/84	1106.	264½	265½	+3½	1.04
Kinki-Sogo Bk.2⅞ 03 US	4/88	1069.	126	127¼	+0½	1.99
Land Secs. 6¾ 02 £	6/87	6.72	92¼	93¼	+0¼	13.38
MCA Inc 5½ 02 US	9/87	69.62	80½	81½	+0⅛	26.73
Minolta Camera 2¼ 94 DM	2/86	1004.	98¼	99¼	-0⅛	17.31
Mitsubishi Bk.1¾ 02 US	9/87	3157.	105	106⅛	+1½	4.40
Mitsui Trust 2¼ 01 US	10/86	1903.	118½	120	+2¼	3.46
Next Plc 5¾ 03 £	11/87	4.3	98¼	99¼	0	114.46
NSW Nipp.Bk.2⅞ 03 US	4/88	804.	103⅝	104⅞	-1½	3.48
Omron Tateisi 2⅛ 02 US	4/87	1310.	200⅝	202	+1¼	2.50
Primerica 5½ 02 US	4/87	66.75	66½	67½	0	55.56
Ranks Hovis 4¾ 03 £	1/88	3.5	111¼	112¼	+0¼	1.86
Redland 7¼ 02 £	1/87	5.4	87⅝	88⅝	-0¼	16.19
Saatchi&Saatchi 6¾ 03 £	†10/89	4.41	96	97	+0¼	24.43
Texas Inst. 2¾ 02 US	†9/87	82.87	73½	74½	-0¼	47.32
W.R. Grace 6½ 02 US	9/87	42.12	79	80	-0⅛	31.33

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal account of bond per share expressed recurrency of share at conversion rate fixed at issue. Prem = Percentage premium of the currenteffective price of acquiring shares via the bond over the most recent price of the shares.

Yamaichi set for US primary dealership

By Ian Rodger in Tokyo

YAMAICHI International (America) is widely expected to be designated a primary dealer in US government securities in the near future.

The US subsidiary of Japan's fourth largest securities group has been seeking a place as a primary dealer for more than a year. Its application was delayed as part of the tactics used by the US side to pressure Japan into opening its financial markets to foreign financial institutions.

In response to this pressure, the Japanese Ministry of Finance announced early this month that from next April it would introduce open competitive bidding for 40 per cent of the monthly issues of 10-year government bonds.

It also increased the share of foreign companies in the underwriting syndicate for the remainder from 2.5 per cent to 7.96 per cent and said four foreign companies would be allowed to participate in the syndicate's management.

The US authorities welcomed these moves and it is understood that the Federal Reserve Bank of New York will soon designate Yamaichi as a primary dealer. Six Japanese companies already have primary dealerships.

The three largest securities groups, Nomura Securities, Daiwa Securities and Nikko Securities, acquired them directly while Industrial Bank of Japan, Long Term Credit Bank of Japan and Sanwa Bank acquired them through acquisitions of US firms.

Slowdown in Japanese bond buying

By Our Financial Staff

JAPANESE investors bought a net $9.82bn in foreign bonds in August, against $11.51bn in July, according to the Japan Securities Dealers Association.

Gross purchases were $95.87bn, up from $90.95bn in July, while gross sales were $86.04bn, an increase of $79.44bn.

The association's figures include government paper with maturities of one year or more and bonds issued by private firms, semi-government agencies and institutions.

Japan's outstanding bond holdings in August totalled $134.07bn against $131.91bn.

Gross purchases of US bonds rose to $87.77bn, or 91.6 per cent of the total, compared with 88.2 per cent in July. Gross sales of US bonds stood at $81.42bn, against $74.72bn.

The failure of the US Treasury to offer 30-year bonds at its quarterly refunding auction was a positive factor for the market, the association said.

INTERNATIONAL COMPANIES AND FINANCE

Next profits edge ahead to £31m

By **Maggie Urry** in London

NEXT, the UK retail and home shopping group headed by Mr George Davies, barely increased pre-tax profits in the first six months and saw a fall in earnings per share.

Pre-tax profits to the end of July were up 2.3 per cent to £30.9m ($52.6m), but these were struck after a rise in the interest charge from £2.6m to £7.2m, and a first time provision of £4.2m for the interest which would be payable if the company's convertible Eurobond is redeemed early.

Mr Davies also revealed that the British postal strike, which will affect the second half, cost the group £25m in sales only some of which are likely to be recouped. Mr Davies said the group was negotiating with the Post Office regarding this loss of business.

Group sales in the half year were up nearly 70 per cent to £543.8m and operating profits rose 29 per cent to £42.3m. Mr Davies said the first half had been a period of reshaping the business following the acquisition of Combined English Stores a year ago. Mr Davies denied that Next had any plans to make acquisitions and felt the group had enough to do for the next three or four years.

Parts of CES had been sustaining losses, and shops had been closed and converted to Next stores. During the half year, £30m had been spent in the high street shops out of total capital expenditure of £63m. This high level of spending contributed to a rise in borrowings, and gearing was 125 per cent, or 63 per cent if the convertible is excluded.

The core Next shops had seen like-for-like sales growth of over 10 per cent Mr Davies said, and operating profits from the high street were 49.1 per cent up at £16.7m.

He expressed pleasure with the progress of the newer chains. Next Originals, a womenswear chain launched a year ago, had been successful; the Next Jewellery chain, which started in May, had been expanded to 46 outlets; the first Department X store had started well; and an experiment in selling clothes through small neighbourhood shops would begin next month.

George Davies: negotiating with the Post Office

In home shopping, operating profits rose 17 per cent to £15.7m, despite a sharp fall in profits from the camping holidays business, which had been included for only a few, very profitable, weeks in the comparable half.

The Next Directory, a new idea in British home shopping, launched in January had produced net sales of £25m and broke even, an "exceptional achievement" for a new business, Mr Davies said.

He said that his next aim was to bring the lessons learned from the Directory to the traditional Grattan mail order business, and promised a major attack on the home shopping market in 1990. In January 1989 a gardening catalogue will be launched.

Profits from financial services were £4.3m (against £4.2m) and property £5.6m (£4.0m). Earnings per share were 6.61p before the provisions for convertible interest (7.28p) and 5.82p after that interest. The interim dividend is up 8 per cent to 2.7p.

Next shares finished the day 18p lower at 182p.

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Euromobiliare posts L14bn loss for year

EUROMOBILIARE, the leading Italian merchant bank, reported a consolidated loss of L13.8bn ($98.5m) in the fiscal year ended June 30, compared with a profit of L12.4bn in the previous year, AP-DJ reports from Milan.

It also announced that the parent company ran up losses of L14.3bn in fiscal 1988, compared with a profit of L7.3bn the previous year.

Euromobiliare blamed the poor results on the strong cyclical fall in business in some sectors after the October market crash.

In particular, write-downs of L10.3bn on its holdings of government securities, as well as of L8.1bn on its stocks held in portfolio from its underwriting activities, weighed heavily on last year's results, the company said.

However, the company's "swift reaction" to the changed market conditions should enable it to post a positive result this year, it said.

The board of directors has proposed to shareholders to replenish the losses from its official reserves and pay a dividend of L125 on its savings share, half of last year's dividend. Savings shares are cumulative, non-voting prefered shares. The company will not pay a common share dividend.

The statement said Euromobiliare successfully completed a rights issue recently, which increased the company's share capital to L34.8bn from L22bn and raised L63bn in fresh funds. Only 1.2 per cent of the rights were not subscribed to, the company said.

The capital increase was initially meant to enable the French merchant bank Dumenil Leble, which is 25 per cent owned by the De Benedetti group, to raise its stake in Euromobiliare to 20 per cent from 6.3 per cent.

Instead, a large chunk of the rights were bought up by Finarte, the financial holding of Mr Francesco Micheli, who obtained a 10 per cent shareholding.

The Ferruzzi group also took advantage of the rights issue, raising its stake to 12.7 per cent from 10 per cent.

TransAtlantic raises stake in Sun Life

By **Nick Bunker** in London

THE BATTLE for the future of the UK's Sun Life Assurance intensified yesterday with the disclosure that Mr Donald Gordon's TransAtlantic Holdings has raised its stake in the company from 26 per cent to at least 28.4 per cent after heavy buying in the past week.

Traders said TransAtlantic had been bidding to buy a further 560,000 shares from institutions, which could raise its stake to nearly 30 per cent. The buying helped lift Sun Life's shares to close 23p up at £10.23 ($17.43).

Tomorrow Sun Life shareholders will vote on the controversial plan of its chairman Mr Peter Grant to bring in UAP, the state-owned French insurer, as an 18.2 per cent shareholder.

Mr Gordon, a dominant figure in South African life assurance, via Liberty Life, has criticised the terms of the deal, but speaking in London yesterday he said it was unlikely that his recently acquired shares could be voted at tomorrow's meeting. He said he intended, however, to protect his stake from any dilution.

He said TransAtlantic had not yet decided how it would vote, since it believed crucial aspects of Mr Grant's plan could be renegotiated before then to improve the deal's financial terms.

Much of the drama now centres on the attitude to Mr Grant's scheme of the other British insurance companies which hold about 14 per cent of Sun Life.

Mr John Russell, insurance analyst with Prudential Bache Securities, said he expected them to back Mr Grant, because of their unwillingness to break ranks with a fellow British insurer.

But analysts believe that some pension funds, particularly the Electricity Supply Council scheme with 1.9 per cent of Sun Life, take a dim view of Mr Grant's plans.

Among insurers, Sun Alliance, with 5.2 per cent of Sun Life, declined to comment but is understood to support Mr Grant.

UK COMPANY NEWS

Strong demand at all levels lifts Christies to £20m

By Fiona Thompson

CHRISTIES INTERNATIONAL, auctioneer, yesterday reported pre-tax profits ahead by 12 per cent to £20.6m for the six months to June 30 1988.

The result, up from £18.32m last time, reflected strong demand for works of art at all levels of the market, said Lord Carrington, in his first financial statement since becoming chairman in July, and was particularly gratifying considering continuing uncertainty in economic markets and the fact that last year's first half included the sale of two pictures by Van Gogh, including the famous Sunflowers.

Auction sales handled rose from £316m to £347m and turnover advanced from £50.95m to £55.85m. The UK made the largest contribution to sales, with the US following and then the rest of Europe. However, New York surpassed London's King Street saleroom in terms of first half sales, according to Mr Jonathan Price, finance director.

Adverse currency movements depressed profits by about £1m, Mr Price added. Asked about the near-5 per cent stake in Christies acquired recently by the Cayzer family's Caledonia Investments, he said Christies was happy with it. "We know them and we welcome them."

Earnings per share rose from 24.77p to 28.91p and an interim dividend of 4p (3p) was declared.

The autumn season promised to be one of the most exciting in the company's history, said Lord Carrington. The largest diamond offered for sale at auction, weighing more than 407 carats and expected to fetch up to $20m (£12m), will come under the hammer in New York next month. In November, Picasso's Acrobate et jeune Arlequin will be auctioned in London and is likely to become the most expensive 20th century work of art.

The season will also include five country house sales in England and Ireland and a sale of Russian pre and post-revolutionary art. In December a sale of vintage and veteran cars will be held at Donnington Park.

● COMMENT

These excellent results put Christies well on the way to beating the full year forecasts made by the City at last year's end. The art market is extremely buoyant at the moment and Christies has never had so many top quality items going through at one time. Lead times on forward sales have increased from 16 weeks to 22 weeks, reflecting a feeling that the market is stable, and, with auction and print costs remaining fairly fixed, increased sales go straight through to the bottom line. Sceptics question whether we are at the top of an economic cycle which might be followed by unsold items increasing in the lower and middle range. But, with the company itself, most unusually, being bullish about the second half, most analysts are forecasting £38m for the year. The shares closed 9p up at 541p, producing a prospective p/e of about 10, a bit on the cheap side.

Prolonged strike in US newsprint mills will affect second half profits

Jefferson Smurfit ahead 70% to I£109.2m

By Maggie Urry

"AN OUTSTANDING six months' trading" according to Mr Michael Smurfit, chairman of Jefferson Smurfit, made for a 70 per cent rise in pre-tax profits to I£109.2m (£93.2m) in the half-year to end-July.

The Dublin-based group, which claims to be the largest paper packaging business in the world, benefited from higher volumes and prices and tighter cost control, Mr Robert Holmes, chief financial officer said.

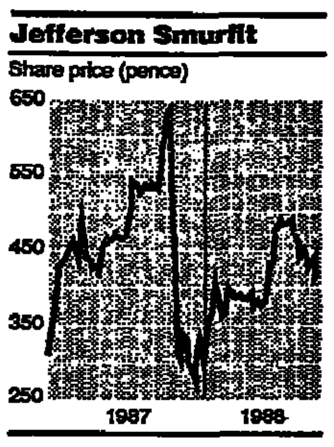
Sales rose 17.4 per cent to £654.3m, and operating profits increased nearly 60 per cent to £117.3m. North America, which contributes 67 per cent of operating profits showed a gain of 70 per cent to £78.4m, in spite of the adverse effect of exchange rate movements.

In the US volumes rose by 4 per cent and the mills operated at nearly full capacity. Prices were generally between 9 per cent and 12 per cent higher, year-on-year, across the range of products which includes newsprint, containerboard and cartons. Operating margins rose from 7.9 per cent to 12.5 per cent.

However, a strike in the two US newsprint mills would affect second-half profits, Mr Smurfit said. The strike is now in its 11th week and the mills were being run by salaried staff, and were meeting 90 per cent of production budgets.

Profits from Latin America rose 53.6 per cent to £22.1m, but in like-for-like terms the gain was 21 per cent, Mr Smurfit said. The operations in Venezuela, previously held through the 50 per cent owned Container Corporation of America, had become a 78 per cent owned subsidiary.

Similarly Smurfit plans to exercise options to buy CCA's subsidiaries in Mexico and Colombia in the next financial year at a price of $150m



(£89.6m). All three areas reported higher profits.

The operations in the Irish Republic increased profits by 83.3 per cent to I£7.1m, and margins nearly doubled to 9.9 per cent. UK profits rose 70.1 per cent to £4.6m, and there was a strong increase from the associate company UK Corrugated.

The rest of Europe suffered a fall in profits from £6.9m to £5.9m, largely because Smurfit had been unable to pass on raw material price increases in Holland and Italy.

Mr Smurfit said the group was looking for acquisitions in Europe to even up the geographical balance and to prepare for the single market in 1992. He hoped to announce some major development plans shortly. However, Mr Holmes argued that it was difficult to find suitable acquisitions at reasonable prices.

The chairman said he was optimistic for the second half and believed the world economy was still fairly robust. Capital expenditure would be at record levels over the next two years, he said.

Balance sheet gearing at the half-year end was 35.7 per cent, and the interest charge of

Michael Smurfit – seeking European acquisitions.

£8.1m (£9.3m) was covered 9.5 times.

After a 41.4 per cent tax charge, and minorities up 80 per cent at £19.1m, earnings per share were 21.7p (14.2p).

See Lex

BM raises bid prospect with 4.9% of Jas Neill

By Andrew Hill

BM GROUP, acquisitive machinery manufacturer and distributor, has acquired a 4.87 per cent stake in James Neill Holdings, raising the prospect of a bid for the manufacturer of hand and garden tools.

Mr Roger Shute, chairman and chief executive of BM, said: "We have been looking at Spear & Jackson (Neill's garden tool subsidiary) for many, many years. Since Neill bought it, back in 1985, we have obviously followed its progress – or lack of it – with interest."

BM notified the Sheffield-based company of its stake, held by nominees, on Friday, just over a week after Neill reported a 29 per cent drop in pre-tax profits for the six months to June 30. Neill's shares rose from 201p to 231p on news of the approach, against 174p following the results announcement.

Mr Shute had what he described as "a convivial and congenial meeting" with Mr Hugh Neill, the group's chairman. He said the stake allowed him to keep his options open, but would not rule out the possibility of a takeover.

In the past Neill has attracted the attentions of Suter, the engineering conglomerate headed by Mr David Abell, and Mr Peter Bullock, Neill's chief executive, suggested that any bid approach by BM would be equally unwelcome.

"We do not know BM's intentions, but as it is an acquisitive sort of company we are watching them like a hawk. We think we have a very good future as an independent group", he said.

BM, the former Braham Miller, was bought by Beazer in 1984, but kept its listing. Beazer's original stake of about 88 per cent has now been reduced to under 14 per cent. In the year to June 1987 BM's profit doubled to £5.09m.

MBS to make staff cuts

By Fiona Thompson

MBS, the largest UK distributor of personal computers, yesterday issued a number of staff with redundancy notices. The Eton-based company is due to release its half-year results this morning.

Mr Stafford Taylor, chief executive, last night confirmed that some redundancies had been announced but refused to give any further information concerning the number or the reasons for the job cuts.

"We are releasing a full package tomorrow. It has to be seen in its entirety," he said.

In July, MBS announced it was withdrawing from its wholesale business as a result of intense price competition.

At that time, the company said the closure of its Warrington-based PC distribution arm would make funds available to more profitable parts of the group, such as selling direct to companies.

Extel, the financial news service, last night announced that Mr William Weinstein, a non-executive director of MBS, had resigned "as a consequence of his changing duties and management commitments."

MBS was rescued at the end of 1985 via a management buy-in by two ex-IBM executives, after intense price competition in the microcomputer market pushed the group into the red.

In the year to December 31 1987 MBS staged a dramatic turnround in performance, making pre-tax profits of £5.2m, more than trebling its pre-tax result for 1986. Turnover was £136.1m compared with £106.8m in 1986 and earnings more than doubled to 4.8p.

Sketchley seeks buyer for photocopier businesses

SKETCHLEY, the dry-cleaning and business services group, is seeking a buyer for its interests in photocopier distribution. These businesses, with turnover of £24m last year, were acquired as part of the £20.7m acquisition of Equipu, a photocopier and computer services group, in December 1986.

Sketchley said yesterday that the businesses, based mainly in south-west England and Scotland, had achieved strong growth in their local markets. However, it was unwilling to commit the resources to expand the business nationwide.

No price tag was put on the businesses, nor would Sketchley give any indication of their profits or net assets. It has appointed N.M. Rothschild, its merchant bankers, to handle the sale.

Sketchley stressed that it was fully committed to the other businesses in the office services division, which include Mellordata and other computer peripheral businesses. These account for about half of the division.

Meyer has 5% of Travis

By Philip Coggan

MEYER INTERNATIONAL has acquired a 5.1 per cent stake in fellow builders' merchant Travis & Arnold, for which it recently made a £177m bid.

The bid was rejected by the Travis board which favours a merger with builders' merchant, Sandell Perkins. The Sandell merger is supported by holders of 39.3 per cent of Travis's equity.

Meyer acquired the shares at a price of 500p, the value of its cash offer. The Sandell offer values Travis at 403p per share, but unlike the Meyer offer, there would be no capital gains tax implications in accepting an all-share deal.

Among the Travis holders which sold part of their holding was Mercury Asset Management, which now owns 3.1 per cent.

Colonnade set for main market debut

By Philip Coggan

COLONNADE DEVELOPMENT Capital, investment company, is joining the main market via a placing which will value the group at just under £7m.

Colonnade is managed by B & C Development Capital, a subsidiary of British & Commonwealth Holdings, financial services group. It was established in 1984 to invest in UK unlisted companies and to support management buy-outs and buy-ins.

On September 12, Colonnade had a portfolio of 10 investments, including the quoted companies Kunick Leisure, Westbury and TIP Europe. Since then it has agreed to invest £750,000 in Imtec, a USM company which is in the midst of financial restructuring.

Colonnade's unaudited net assets were £7.5m on September 12, equivalent to 191p per share. James Capel is offering 1m shares at 138p each, a 22 per cent discount to net assets.

The company will be run so as to achieve investment trust status.

Needler Group hits C$1.49m

Needler Group, Canadian-based aggregates, asphalt and concrete block producer, raised pre-tax profits from C$1.26m to C$1.49m (£732,000) in the half year to end-June – the group's first statement since its placing on the USM in June.

Turnover rose to $19.77m ($14.34m), and earnings per common share worked through at 5.1 cents (4.1 cents). The interim dividend is set at 3 cents.

Hunting Petroleum up 33% to £3.97m midway

HELPED BY a substantial reduction in the losses of oilfield services from £990,000 to £415,000, interim pre-tax profits of Hunting Petroleum Services increased 33 per cent to £3.97m, against £2.97m.

The company said the division was benefiting from the increase in service activity in the North Sea and from rationalisation measures taken last year.

However, the major contributor to profits was again Gibson Petroleum where the trend seen last year continued with all principal activities contributing at higher levels.

Turnover for the six months to end-June was up at £119.82m (£111.86m). Earnings per share came out at 6.1p (4.92p) basic or 6.17p (5.19p) fully diluted. The interim dividend is maintained at 3.5p.

For the remainder of the year the board expected a continuation of the results achieved by Gibson and Hunting Oilfield Services. Directors also saw an improvement in Hunting Lubricants and Specialised Products, although it was not expected to achieve the performance of the second half of the previous year.

For the period under review results from Hunting Lubricants reflected the competitive nature of the market and reduced margins due to the fall in base oil prices. Measures were being taken to improve the position.

The performance of the specialised products division remained encouraging with sales of Hammerite and Smoothrite continuing to make good progress.

The pre-tax figure was split between crude oil, transportation and terminalling - £3.26m (£1.98m); oil process equipment, recycled oil, storage and other activities - £506,000 (£923,000); lubricants and specialised products - £514,000 (£1.8m); oilfield services - £415,000 losses (£990,000).

After minorities £839,000 (£639,000), attributable profits were £1.14m (£912,000).

Tarmac increases Ruberoid stake

Tarmac, construction and building materials company, has increased its stake in Ruberoid, the building materials group for which it is offering £141.3m.

Tarmac owns or has received irrevocable acceptances of its recommended cash bid representing 21 per cent of Ruberoid's equity.

Pilkington purchase

Pilkington Visioncare, spectacle and contact lens and solutions manufacturing subsidiary of the UK glass group, has acquired worldwide rights to the contact lens machinery of UK-based G Nissel.

Atlantic Computers

Atlantic Computers is negotiating the sale of its Atlantic Network Systems data communications subsidiary, to Tricom Communications, a private group.

Blackwood Hodge

Blackwood Hodge, distributor of earth-moving equipment, is buying Crushing & Screening the Northallerton-based supplier of equipment to the UK quarrying and mining equipment industries. The consideration is £400,000- £150,000 in the form of new Blackwood shares.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
ATA Selection § ....int	0.84	Dec 19	0.7	-	1.8
Casket ....fin	1.8†	Dec 5	1.6	3	2.6
Chambers & Farg....fin	2	-	1.75	3	2.75
Christies Int ....int	4	Nov 11	3	-	13
Clifford Dairies....int	3.6	Nov 11	3.3	-	8.8
Evered ....int	1.5	Nov 18	1.25*	-	3.25*
Hunting Pet Serv....int	3.5	—	3.5	—	9
Lon & Metro ....int	1.95	-	1.5	-	4.75
MIL Research ....int	1.75	Nov 21	1.1	-	3.3
Molins ....int	2.5	Nov 25	2.5	-	9.6
Mowlem (John) ....int	5.35†	Dec 30	4.75	-	17.25
Needler Group ....int	3♠	-	-	-	-
Next ....int	2.7†	Jan 3	2.5	-	8.7☆
Senior Eng ....int	1†	Nov 30	0.91	-	2.2
Smurfit (J) ....int	1.361♣	Dec 30	1.237	-	3.975
Tribble Harris §....int	1.6‡	—	1.6	—	4.8
Young (H) Hldgs ....fin	3†	Nov 18	2.6	4.4	3.9

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ♣Irish currency throughout. ☆For 17 months. ♠Canadian cents. ‡ US cents.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Ashley (Laura), BSG Intl, British Dredging, Early's of Whitney, Estates & General, Foseco, Hogg Robinson & G.M., Folkes Group, Kentish Property, MBS, Silkolene Lubricants, Tesco, Western Dooars Tea

Finals- Bailey (Ben) Construction, British Fittings, Colroy, Eleco, Forminster, Frogmore Estates, Gent (SR), Harvey & Thompson, Ramar Textile, Randsworth Trust, Renishaw, Star Computer, Thorpe (F W), Trafford Park Estates.

FUTURE DATES

Finals-

Bellway	Nov. 10
Brown Shipley Stlg Cap	Oct. 10
Geest	Sept.29
Maunders (John)	Oct. 5
Photo-Me	Oct. 6
Portugal Fund	Oct. 7
Royal Tst Japan Growth	Sept.30
Welsh Ind. Inv. Trust	Sept.30

UK COMPANY NEWS

Acquisitions boost Evered to £13.6m

By Ray Bashford

EVERED HOLDINGS, the building and industrial products group headed by the Abdullah brothers, benefited from acquisitions to lift pre-tax profits by 56 per cent from £8.7m to £13.6m during the six months to June 30.

The results were in line with City forecasts which had expected London & Northern, purchased for £100m in April 1987, to make a substantial contribution in the half.

With the inclusion of returns from L&N's quarry operations comparision with the corresponding half is rather distorted. However, the division boosted pre-tax profits from £2.5m to £7.3m, while sales rose from £11.6m to £41.3m.

Mr Osman Abdullah, chief executive, said contributions from the much smaller purchases of John Fyfe and Tractor Shovels also aided the results, while US quarry businesses were ahead during the half.

The Hallite group, purchased last year, has been integrated into polymer operations and proved a strong addition to the industrial division.

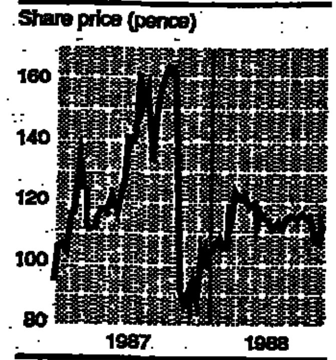
The division returned pre-tax profits of £7.5m (£5.2m) as sales advanced from £61.9m to £78m.

Group turnover of £119.3m compared with £82.5m. Earnings per share edged up from 5.9p to 6p, reflecting partly an increase in the number of shares on issue.

The tax charge rose from £1.3m to £2.7m as the company continued to use up the advantage of tax losses received through previous acquisitions.

Evered Holdings

Share price (pence)



Osman Abdullah - seeking authority to buy-back shares

Mr Abdullah said the company would seek shareholders' approval during the next few weeks for authority to buy-back shares in the company.

He said the company had no immediate intention to exercise the right, but would seek authority to acquire between 10 and 15 per cent

● COMMENT

The balance between pre-tax profit contributions from the quarrying and industrial divisions achieved in the latest half will not continue. Evered sees its future bedded in the quarrying business and disposals of industrial companies during the next year are expected. Quarrying could constitute 65 per cent of pre-tax profits for the year and continue to expand its contribution. Tactico, the cellular telephone subsidiary, is ripe for sale and engineering businesses could also depart. The quarry business is seen as a more stable point of focus with greater room for expansion. The purchase of the Fidler quarry group in the US last July will make an impact during the current half and confidence is held in the possibility for further growth across the Atlantic. However, with gearing at 80 per cent on June 30 and set to fall to 60 per cent by the year-end a major purchase should be ruled out. The company's tax rate will grow progressively from the present 22 per cent to about 35 per cent in three years, based on the present structure. With estimates of annual earnings at £35m and a prospective p/e of 7.5 the shares should be placed in the "hold" basket.

Manchester Ship meeting on

By Ian Hamilton Fazey, Northern Correspondent

MANCHESTER SHIP Canal Company last night refused to postpone tomorrow's extraordinary general meeting when shareholders will be asked to approve plans for a restructuring. The plans would strengthen the control of Mr John Whittaker, the property developer, and authorise extra borrowing up to £45m.

Opponents of the move yesterday, represented by Morgan Grenfell, the merchant bank, urged the Stock Exchange to ask the company for a postponement while two key issues are resolved. The exchange has no powers to order a postponement, which was refused by the company after discussions.

One issue is whether shareholders have been properly notified about the meeting. Proxies were sent out during the postal strike and many have been caught in a huge backlog of mail in the Manchester area.

The company said last night that it had fulfilled its statutory obligations about notification by advertising in three newspapers.

The second issue is whether Great Hey Investments, the private company owned by Mr Whittaker, should abstain from voting on the crucial motion to ask the Government for a Harbour Revision Order. The order is needed if the company is to restructure its board by removing Manchester City Council's statutory right to a majority of one.

The council is supporting the move in exchange for repayment of the £7m of debentures which gained it the majority in the first place, plus £3m in guaranteed profits from a joint property company it is forming with Great Hey.

Great Hey holds a controlling interest in Manchester Ship, with a majority of preference shares but a minority of the more valuable ordinary stock. There are equal numbers of each class carrying equal voting rights.

Mr Whittaker has indicated that he will abstain from voting at the meeting because he has an interest. His opponents, which include Globe Investment Trust, Prudential Assurance, the Carroll Group, the Water Authorities Pension Fund and Harrap, are led by Mr Nicholas Berry, Harrap's chairman. They say that Great Hey must abstain too, since the benefit to it would automatically pass to Mr Whittaker.

"Such abstention would be normal in every company I know of. But it would give us a majority and we would then vote the resolutions down," Mr Berry said yesterday.

The dispute between Mr Whittaker and the majority of ordinary shareholders is over the value attached to the shares. Great Hey recently proposed to offer £20.70 to buy out Mr Berry's camp, but this was spurned on the grounds that Manchester Ship's property interests might raise the value to £50 a share if retail and leisure developments gained planning permission.

The Manchester Ship spokesman said talks were continuing about whether Great Hey should abstain. The issue would be resolved before the meeting.

Mr Berry said other companies had used private couriers to send information to shareholders during the postal strike. He has paid £7,000 himself to circularise 1,000 Manchester Ship shareholders with documents attacking Mr Whittaker's plans.

Arley rights gets 41% acceptance

AROUND 41 per cent of the £4.8m rights issue from Arley Holdings, the former Photax (London) was left in the hands of the underwriters, writes Philip Coggan.

The group is being reshaped by Mr John Ferguson, the former chief executive of BSR.

Mr Ferguson and two other Arley directors, who owned 48.6 per cent of the equity, undertook not to take up their rights. Those shares were allotted to institutional investors and existing holders took up a further 10.3 per cent of the issue.

Hill Samuel, the underwriters to the issue, said that stock market conditions had been difficult since the issue was announced. Arley's shares closed yesterday unchanged

Clifford's Dairies climbs 17% to £2.7m

CLIFFORD'S DAIRIES achieved a 17 per cent rise in pre-tax profits in the six months to June 30. The figure of £2.68m, compared with £2.3m previously, was after profit sharing of £112,000. Turnover was up 19 per cent from £49.37m to £58.67m.

During the half-year the company acquired 50 per cent of a small fruit processing and packing company, and, just after the period ended, a supplier of frozen ready meals. To reflect its wider range of activities the board proposes to change the company's name to Clifford Foods.

After tax of £990,000 (£850,000) earnings were 10.5p (9.32p). An interim dividend of 3.6p (3.3p) has been declared. There was an extraordinary item of £1.12m (£278,000), representing the profit on the sale of land and buildings.

Domestic & General tops forecast

Domestic & General Group yesterday revealed pre-tax profits of £1.68m for the 12 months to end-June – well above the £1.25m forecast by the group at the time of its USM flotation in May.

The profit figure for the group, which is involved in broking and underwriting breakdown insurance for household appliances, included an exceptional credit of £335,000 arising from settlement of a disputed reinsurance agreement which is attributable to the loss of investment income in previous years.

Mr Martin Copley, chairman, said the result reflected the continued strengthening of the core business. Recent acquisitions Melbec Electrical and Payne & Munday were now fully integrated and were making a growing contribution.

After tax of £666,000 and minorities £35,000, earnings per 10p share were 18.3p.

MIL Research jumps by 62%

MIL Research Group, one of Britain's leading market research companies, saw pre-tax profits for the half-year to July 31 1988 rise 62 per cent from £654,000 to £1.06m.

Turnover increased 15 per cent to £7.18m (£6.25m). Tax took £362,000 (£161,000) and an improved interim dividend of 1.75p (1.1p) came from earnings per share of 6.6p (4.9p).

The directors said current trends were encouraging, with consistent growth in monthly booking figures and a substantial increase over last year in work contracted but uncompleted at end-July.

The company was researching acquisition opportunities in the UK, US and West Germany with a view to extending and complementing its existing range of market research services.

Chambers & Fargus ahead

Chambers & Fargus, seed crusher and edible oil refiner, raised pre-tax profits by 22 per cent to £766,000 for the 53 weeks to July 2 1988, against £626,000 for the previous 52 weeks.

After tax of £269,000 (£231,000) earnings per share were 10.33p (10.78p) or 8.44p (8.01p) assuming conversion of the loan stock. The directors recommend a final dividend of 2p for a total of 3p (2.75p).

Turnover advanced from £16.51m to £17.15m.

ATA Selection advances 35%

ATA Selection, USM-quoted recruitment and financial services group, lifted taxable profits by 35 per cent to £455,000 in the six months to June 30.

Turnover expanded 28 per cent to £2.62m (£2.05m). Earnings per 5p share rose to 2.44p (1.82p) and the interim dividend is lifted from 0.7p to 0.84p.

Mr Simon Greenly, chairman, said the group continued to seek further acquisitions "to meet with our target of continuous growth in earnings per share".

CORRECTION

Peek plc

Following last Thursday's article on South African investment in Britain, Peek plc have asked us to make it clear that Ventron is not registered as a shareholder in Peek plc and, as far as the company is aware, does not have any indirect interest in its shares. Peek adds that Ventron in no way influences the management of Peek plc, nor does it have any control over the board nor any of its directors.

Molins steady at midway but warns on year's result

By Andrew Hill

A DELAY in signing a major contract to supply cigarette-making machines to China could have an adverse impact on full-year profits at Molins, the manufacturer of cigarette, packaging and security printing equipment.

Announcing interim profits of £3.3m before tax in the six months to June 30, against £3.1m in the equivalent period, the group said the Chinese finally signed for the £20m order in August, four months behind schedule. The benefits of the contract are unlikely to show through until 1989.

Molins also described as "gross misrepresentation" a Julyarticle in The New York Times, which described the company as "an obscure British equipment maker" and suggested that it had taken a passive role in following up patents claims concerning the automation of machine tools – the so-called flexible manufacturing system (FMS), first patented by Molins in 1965. The group said yesterday that it had been actively pursuing the issue for the last five or six years.

Turnover in the first half rose from £33.7m to £34.5m and earnings per share were down from 5.2p to 4.9p: An unchanged interim dividend of 2.5p was declared.

The tobacco machinery division returned operating profits of £2.1m (£900,000). The division was affected by the less competitive rate of sterling against the D-Mark, in which Molins' major competitors trade.

Mr Tess Frankel, chairman, said Molins was reorganising the division, having completed an extensive three-year research and development programme, to reduce its vulnerability to fluctuating demand.

Production of the older models of cigarette-making equipment would now be carried out by the Molmac spares and rebuild machinery subsidiary, he said, making 50 people redundant at Saunderton, the company's principal manufacturing operation which will produce the new models.

Corrugated packaging and security printing machinery contributed operating profits of £1.7m (£1m) and technology development and licence income – combined in a new division known as Molins Technology – made £200,000 (£1.2m), after legal fees of £200,000.

● COMMENT

Some say Molins is in danger of becoming a "jam tomorrow" stock, always promising improvements which never seem to materialise. This is probably unnecessarily harsh. The medium-term prospects for the company do seem fairly bright: restructuring at the cigarette-making equipment subsidiaries, and reduction in the massive R & D expenditure are likely to benefit the bottom line. If FMS litigation in the US is successful then what is currently a lumpy performance from the licences and patents division should also be converted into a fairly level income stream. However, 1988 profits are unlikely to surpass last year's £10.2m before tax by much, putting the shares, down 3p to 229p yesterday, on a prospective multiple of about 10.5. Sir Ron Brierley's stake in the company – just over 29 per cent held by his Industrial Equity (Pacific) investment subsidiary since the Tozer Kemsley & Millbourn bid for Molins lapsed more than a year ago – is keeping takeover hopes alive.

COMPANY NEWS IN BRIEF

BILLINGSGATE CITY Securities: Proposed acquisition by Erlanger Commercial Corporation will not be referred to the Monopolies Commission.

WAYNE KERR: Farnell has a total of 9.34m (88.4 per cent) Wayne Kerr shares. The offer has become wholly unconditional and remains open.

KEEP TRUST has acquired Spa Motor Holdings, Leamington Spa, for £850,000 in cash. Spa, a General Motors dealership, made pre-tax profits of £109,000

UK COMPANY NEWS

Results include loss of £3.7m from London City Airport

Mowlem pleases City with £21m

By David Waller

JOHN MOWLEM, construction and housebuilding company, yesterday reported a 40 per cent increase to £21m in pre-tax profits for the first six months of the year. The improvement was matched by a 41 per cent improvement to 15.7p in earnings per share.

The figures were at the top end of City expectations, and the shares duly added 6p to close at 379p. The outcome included an unspecified amount of property profits, unusual in the first half, together with a loss of £3.7m on the London City Airport.

No divisional breakdown was given, but Sir Philip Beck, chairman, reported that the housing and building services divisions had done particularly well. Contracting performed satisfactorily, he said.

The forward order book currently exceeds £750m, including over £300m of management contracts.

Strong demand for scaffolding helped generate a 30 per cent rise in turnover in the building services division, and there was a significant improvement in margins. In housing, margins were said to have improved by 50 per cent, although Sir Philip warned that the rate of increase was unsustainable.

London City Airport, located in Docklands, suffered at the end of last year when its flights to Paris were suspended amid a welter of adverse publicity. Although flights were resumed in January, the path to profitability was interrupted and the £3.7m loss was greater than many had expected.

Nevertheless, Sir Philip said he was encouraged by the tripling in the number of passengers per month, from 5,000 in February to 15,000 in September. The airport needs to handle 30,000 passengers a month before it will make money.

Overall, turnover rose from £359m to £451m, on which activities other than aviation generated trading profits of £26.5m (£15m). Interest payable rose from £900,000 to £3.3m, including £1m absorbed by the airport.


Sir Philip Beck – encouraged by passenger traffic growth.

The interim dividend is raised from 4p to 4.5p.

● COMMENT

In common with many other construction/housebuilding companies, Mowlem has reported good figures for the first half. The company has benefited from boom conditions in the construction industry, soaring house prices and not least, an exceptionally mild winter. It is unlikely that such favourable conditions on all fronts will last, but Mowlem is much more broadly based than many companies in the sector, with 50-60 per cent of its business coming from construction services such as tool-hire and scaffolding which are less immediately exposed to the inevitable cyclical downturn in the industry. The jury is still out on whether the £32m investment in the airport was as wise a move as the £160m acquisition of SGB. The company is likely to make £62m in the full year, putting the shares on a multiple of 8 times prospective earnings, underpinned by a generous prospective yield of nearly 7 per cent.

Gold Fields progresses on tracing options

By Kenneth Gooding, Mining Correspondent

CONSOLIDATED GOLD Fields, the UK mining and industrial group, yesterday appeared to be making some progress towards tracing the ownership of options on about 1.7m of its shares bought in the hectic trading ahead of last week's bid from Minorco, the South African-controlled Luxembourg investment company.

Options on 8.2m Gold Fields shares, or nearly four per cent of the issued capital, were bought in the three days before the bid and, according to Gold Fields, about a quarter of them went to Verwaltungs-und Privat-bank, based in Vaduz, Liechtenstein.

Repeated requests from Gold Fields to the Liechtenstein bank to reveal the beneficial owner or owners of the options yesterday produced a response. But Verwaltungs said only that it required more time to provide the information.

Gold Fields takes this as a hopeful sign although its advisers admit there seems to be little the company or the UK authorities could do if the Liechtenstein insititution simply refused the request.

There appears to be no mechanism allowing a UK company to disenfranchise options in the way that it can disenfranchise its shares in certain circumstances where the beneficial owners will not reveal their identity.

Some 29.5 per cent of Gold Fields' equity is already owned by Minorco so the UK company, which is hotly contesting the bid, is particularly interested in who owns other large blocks.

Minorco has previously said it did not buy any options in Gold Fields shares.

So far neither has it acquired any more Gold Fields shares in the market even though this course remains open to it because the UK company's share price, unchanged at £12.75 last night, remained below the offer worth £13.19 a share.

According to Mr Jeff Ware, an analyst with County NatWest, the Gold Fields share price is being held in check by fears that "the course of the bid will be interfered with in some way by the UK authorities".

Dencora trebles profits to £4.3m

DENCORA, East Anglian property development and investment group, trebled pre-tax profits to £4.28m in the six months to June 30, exceeding the £4.1m achieved for the whole of 1987. The comparable figure was £1.42m.

Turnover moved ahead 41 per cent to £16.43m (£11.68m). The group had enjoyed the benefit of a strong demand for houses in East Anglia, said Mr John Laurence, chairman.

All housebuilding subsidiaries had produced satisfactory profits and to satisfy demand additional sites to maintain and increase the land bank had been acquired.

In placing greater emphasis on regional offices, the group had acquired properties in Chelmsford, Ipswich and Northampton, and was developing offices at Chelmsford and Harlow, Mr Laurence said, while disposing of older industrial developments.

Dencora has also acquired a 14 acre site at Ashford, Kent, adjacent to the Channel Tunnel terminal. The first phase will begin towards the end of the year on a forward funded basis. In addition, planning permission has been received for 52,000 sq ft of industrial space at Braintree and for 90,000 sq ft of offices at Southend.

Tax took £1.16m (£370,000) and there was an extraordinary profit of £286,000 (£39,000 debit), being the net surplus of sale proceeds over book value of certain investment properties.

Earnings worked through at 16.9p (6.2p). As usual, there is no interim dividend.

First half rise to £4m at London & Metropolitan

By Paul Cheeseright, Property Correspondent

LONDON & METROPOLITAN, the property development group which came to the market in November 1986, yesterday announced a 41 per cent increase in pre-tax profits and a 30 per cent increase in earnings per share for the 1988 first half.

Since its flotation, L & M has rapidly extended the size and scope of its development programme. This is reflected in pre-tax profits of £4.04m for the six months to June, against £2.86m in the 1987 first half and £9.06m for the whole year.

Earnings per share, on capital enlarged by a rights issue a year ago, were 5.9p, against 4.55p for the comparable period.

Shareholders are to receive an interim dividend of 1.95p, compared with 1.5p for the previous first half and 4.75p for the whole of 1987. The board predicts a final dividend of 4.25p, making a total of 6.2p.

With the property market buoyant, L & M has been able to lease and sell its business park space in the south-east and has developed a steady cash flow from small office projects in Scotland.

The group draws in a larger portion of its profits during the second half and analysts are looking for full-year pre-tax profits of £10m upwards.

In its own right, or in joint ventures, L & M is involved in developments totalling 2m sq ft of space, which could have a completed value of £900m. With projects like the redevelopment of County Hall, London – in which L & M has a 16.5 per cent stake – and an extensive golf courses and residential project near Aix-en-Provence, France, the group has been seeking to ensure a profits stream running into the mid-1990s.

Two thirds of the projects in which it is involved have been forward funded at interest rates fixed between 8 and 10 per cent. At the end of the first half, L & M had a net cash position, but now its gearing is about 13 per cent.

COMPANY NEWS IN BRIEF

ESTATES AND GENERAL Investment has let its new office building, Burnham House, in Gerrards Cross, on completion. It provides 7,425 sq ft of accommodation at more than £16 per sq ft. Estates' property in Great Peter Street, London, SW1, acquired as an investment in 1984, is to be redeveloped following which rents in excess of £35 per sq ft are expected.

OSSORY ESTATES has acquired Blade Construction (Holdings) for more than £2m. Manchester-based Blade is an investment and construction company with a portfolio of seven office blocks and one shopping precinct, which produce an income of £270,000.

TRIBBLE HARRIS LI (US management and design services group): Interim dividend unchanged at 1.6 cents for six months to May 31 1988. Turnover $9.78m ($7.94m) and pre-tax loss $1.65m ($623,000 profit). Tax credit of $815,000 ($274,000 debit) and extraordinary debit $587,000 (nil). Loss per share 5.36 cents (2.79 cents earnings).

YEARLINGS: The interest rate for this week's issue of local authority bonds is 12⅛ per cent, down ⅛ of a percentage point from a month ago, and compares with 10⅞ per cent a year ago. The bonds are issued at par and are redeemable on October 4 1989. A full list of issues will be published in tomorrow's edition.

UK COMPANY NEWS

Orders strong as Senior advances to £6m midway

By Vanessa Houlder

SENIOR ENGINEERING Group yesterday announced a 52 per cent increase in pre-tax profits to £6.1m (£4m) for the first six months of 1988. Turnover increased by 47 per cent to £93.1m (63.5m).

The period saw a "fundamental restructuring" of its mining equipment manufacturing operation with the closure of its Sheffield plant. The costs associated with the reorganisation resulted in an extraordinary charge of £1.29m.

Some £13.1m was spent on acquisitions in the first half, which included Moducel, Durham Tube and Foster Wheeler Power Products. The company continues to look for acquisitions, particularly in its heat treatment, construction and engineering products operations. Gearing stands at 35 per cent.

Professor Roland Smith, chairman, said he was confident that the progress made in the first half would continue through the year. The build up in the order book of the contracting companies was very encouraging, and if the current level of activity in the international economy was maintained, the company would look forward to the future with confidence.

The performances of the mining equipment and heat treatment divisions were described as satisfactory. Thermal engineering had a much improved first half in the UK. Considerable management time was spent on the acquisition of Foster Wheeler Power Products, which is now being absorbed into the group. Thermal engineering had a satisfactory first half in the US and the order level was building up to indicate a very good trading position for 1989, the company said.

Construction services had a successful start to the year with a substantial increase in its order book. Engineering products had an excellent first half, particularly the rigid steel tube companies, and the high level of activity is expected to continue through the remainder of the year.

Earnings per share increased by 11 per cent to 2.86p (2.58p).

An interim dividend of 1p, up 10 per cent, was declared.

● COMMENT

Senior has a lower profile than many in its sector, and this strong set of results suggests to some analysts that the company has been unfairly overlooked. Through rationalisation and a series of low-key acquisitions Senior has sharpened its structure, cut costs and broadened its customer base over the past few years. The reorganisation of the mining equipment business, for example, should cut costs by £1m next year. After this the reshaping of the company appears complete, although further acquisitions, focused on existing divisions in both the UK and Continental Europe are on the cards. Immediate prospects look good with benefits to come from recent acquisitions and a strong order book – up 60 per cent on the start of the year. Analysts expect pre-tax profits for the full year of about £13.5m, which puts the shares down 1p to 59p, on a multiple of 9. With a yield of 6 per cent, the shares are fair value.

Casket considers action over accounts discrepancies

By Clay Harris

CASKET, Manchester-based textiles and clothing company, said yesterday it was considering legal action against former directors and advisers of Kingsley & Forester Group, the toys, hardware and clothing concern it bought late last year.

This followed the discovery, Casket said, "that serious discrepancies existed in the management accounts of certain Kingsley & Forester companies and, in the opinion of the board, in the published accounts of Kingsley & Forester Group for previous years."

In his statement yesterday, Lord Barnett, Casket chairman, said that after the acquisition, "it also became obvious that standards of management information and financial and management controls were unsatisfactory."

Mr Vy Menon, Casket chief executive, said the problems appear to have been limited to companies within Kingsley & Forester, and not in its later acquisitions.

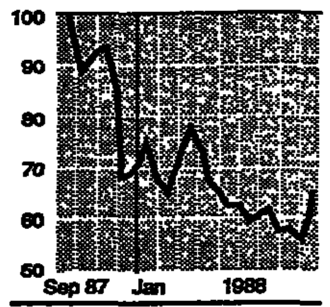
As a result, Casket's pre-tax profits of £3.44m for the year to June 30, also announced yesterday, were depressed by close to £1m. Casket also restated the merger-accounted results from the previous year; at £2.82m, they are £1.2m lower than reported in the interim statement.

The adjustments included a £789,000 restatement of stock valuations, a £330,000 increase in the reported cost of sales and other operating costs, and the inclusion of a subsidiary's £80,000 trading loss which had formerly been treated as an extraordinary item.

Excluding Kingsley & Forester, Casket's own results were slightly down on the previous year, Mr Menon said. Among the brighter areas was

Casket

Share price relative to the FT–A Textiles index



Comfy Quilts, duvet and soft furnishings maker, which entered the group with the acquisition.

Mr Max Moryoussef of Comfy Quilts is the only former Kingsley & Forester director who is still on the Casket board. Mr Arnold Forester, who was to have been joint managing director of the group, has left the company as has Mr John Houlton, the former finance director of Kingsley & Forester Group.

Lord Barnett said the steps required to improve financial and management controls had been implemented, and that "decisions have been taken to eliminate certain areas of trading which have for some time been unprofitable."

Mr Menon said Casket planned, for example, to abandon the bottom end of the household textiles market.

Turnover rose to £95.3m (£93.3m). Closure costs led to an extraordinary debit of £383,000 (nil).

Earnings per share of 6.8p compared with the restated 5.1p figure for 1986-87 and 7.75p before that adjustment. A final dividend of 1.8p raises the total to 3p (2.6p).

H Young leaps 63% and expects further growth

A 63 PER cent increase in pre-tax profits from £1.41m to £2.3m was announced by H Young Holdings, distribution and financial services company, for the year to July 30. Turnover was 20 per cent ahead at £22.22m compared with £18.52m.

The dividend for the year is lifted by 0.5p to 4.4p, with a final of 3p (2.6p) proposed.

Directors said they would continue to examine further acquisitions and also look for additional product lines for existing businesses. They expect further increased efficiency and profits in 1989.

Interest charges rose to £262,000 (£192,000). After tax of £763,000 (£544,000) and minorities of £4,000 (£39,000) earnings worked through at 15.2p (11.8p) per share. There was an extraordinary debit of £652,000 (£579,000) in respect of further losses from the disposal of Luc Lacerre et Fils, plus settlement of litigation, less the net profit after property disposals.

Bluebird Toys rises to £0.15m at six months

Bluebird Toys, USM-quoted toy designer and manufacturer, revealed pre-tax profits of £151,000 in the seasonally unfavourable first half of 1988.

The outcome, achieved on turnover of £7.48m (£3.93m), compared with profits of £134,000 in the same period last year and £2.49m for the full year to end-December.

The sharp increase in turnover was partly explained by a full six months contribution from Peter Pan Playthings, acquired in June 1987, and three months from Merit Toys, purchased in April of this year. Neither acquisition made any contribution to profits.

Mr Torquil Norman, chairman, said that conditions in the toy market during the early months of the year had generally been quiet and this made the future more than usually difficult to predict. Once again, the run up to Christmas was critical.

Tax for the half year accounted for £54,000 (£47,000) and earnings per 10p share worked through at 1.31p (1.45p).

Pennant losses increase

IN THE first half of 1988, losses of Pennant Group, Norfolk-based leisure concern, increased from £389,163 to £551,728. Turnover rose 45 per cent to £1.18m.

The loss was struck this time after a £71,000 extraordinary charge for the costs of the company's introduction to the Third Market in April.

The increased loss was mainly due to the addition of Brightstone holiday centre and a full half year for the coach fleet. At the half year, Pennant has borne almost the full year's maintenance costs on its fleet of hire cruisers and holiday centres with only June producing any real income.

The company intends to continue to expand within the leisure industry by acquisition and, also to sell off less profitable areas of the business and any land which it can make surplus to requirements.

Crossroads lifts Lysander

PRE-TAX profits jumped to £247,341 at USM-quoted Lysander Petroleum in the year to March 31 thanks to Crossroads Oil, acquired last November. The result compared with £51,650 previously. Turnover rose from £671,149 to £957,734.

After tax of £143,174 (£51,090) earnings per 5p share were 0.41p (nil) or 0.36p (nil) fully diluted.

Mr Roy Williams, chairman, said Crossroads had made pre-tax profits of $795,381 for the period, against warranted profits of not less than $750,000 at the time of acquisition.

Two new partnerships are planned for the latter half of the year, funds raised would be invested in Louisiana, where exploration and development efforts are being concentrated, and in some existing partnerships.

SHARE STAKES

CHANGES in share stakes announced recently included:

Adscene Group – Directors' share stakes. Trustees of Lambert Children's Settlement have acquired 10,000 shares (0.067 per cent) at 135p each. The total holding is now 1.82m ordinary (12.26 per cent).

Amec - Mr Malcolm Hawe has increased his notifiable interest to 4.21m ordinary (6.07 per cent) through share purchases this month.

Archimedes Investment - Gartmore Extra Income Fund has disposed of 95,000 income shares (7.8 per cent) registered under the name of Midland Bank Trust. The fund now has no interest in the income shares.

Armour Trust – Grand Central Investment has acquired a further 280,000 shares and is now interested in 1.92m ordinary (8 per cent).

Benson Crisps – Mr W G Bryant, director, has sold 30,000 ordinary at 88p. He now owns 492,152 shares (6.6 per cent).

Blenheim Exhibitions – WGTC holds 750,000 ordinary (5.8 per cent) on behalf of Allied Dunbar Assurance.

Clydesdale Investment Trust – London and Manchester Assurance holds 750,000 ordinary (5.6 per cent).

Cundell Group – British Coal Staff Superannuation Scheme and Mineworkers' Pension Scheme have purchased a further 100,800 ordinary and now hold 5 per cent.

Fulcrum Investment Trust – Exmoor Dual Investment Trust has increased its holding by a further 1.25m capital shares to 7.79 per cent.

Grampian TV – George Craig and Son recently sold 200,000 'A' ordinary, which takes their holding below 5 per cent.

Helical Bar - Pramton Co has acquired 100,000 ordinary and now holds 1.4m (7.395 per cent).

Hicking Pentecost – Earley Enterprises has disposed of 500,000 shares and no longer has a declarable interest.

Normans Group – IEP Securities, part of Industrial Equity (Pacific) holds 4.14m ordinary (7.15 per cent). Discretionary trusts in which M H Swan, a director, has a benificial interest, have disposed of 120,000 at 60p. These transactions are cum script and accordingly the IEP holding stands at 4.66m.

IBM – Scottish Amicable Investment Managers hold a total of 3.76m ordinary shares (6.02 per cent).

Learmonth Burchett – Mr J B Connelly has disposed of 50,000 ordinary, reducing his holding to 1.45m (11.9 per cent).

London United Investments – Govett Strategic Investment Trust has purchased a further 1.05m shares, raising its holding to 4.05m (6.97 per cent).

Murray Ventures – following the purchase of 320,000 shares, Equitable Life Assurance Society and its associate University Life Assurance Society have an interest in 4m ordinary (19.21 per cent).

New Guernsey Securities – W R Stuttaford is interested in 105,000 ordinary (5.25 per cent).

Verson International – Servon International has purchased 50,000 ordinary at 24p, taking its holding to 9m (12 per cent).

West Kent Water Company – Associated Insurance Pension Fund has acquired 17,500 3.5 per cent consolidated ordinary stock and now holds 64,467 voting shares (29.9 per cent).

Wates City of London Properties – the company has purchased 500,000 of its ordinary shares in the market at 164.5p.

Wholesale Fittings – Thomson T-Line now holds 1.16m ordinary (8.27 per cent).

Wolseley – Prudential Corp has disposed of 771,932 ordinary shares and now holds 12.02m (5.69 per cent).

LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE No: 004654 of 1988

CHANCERY DIVISION

IN THE MATTER OF PAULIG LIMITED

AND

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 5th August 1988 presented to Her Majesty's High Court of Justice for the confirmation of (1) the reduction of the capital of the above-named Company from £2,000,000 to £20,000 and (2) the cancellation of the Share Premium Account of the above-name Company.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Honourable Mr Justice Hoffmann at the Royal Courts of Justice, Strand, London WC2A 2LL on Monday the 10th day of October 1988.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital and the cancellation of Share Premium Account should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the under-mentioned Solicitors on payment of the regulated charge for the same.

Dated this 28th day of September 1988

Bischoff & Co.
City Wall House
79-83 Chiswell Street
London EC1Y 4TJ

Ref: EJR/CAB

Solicitors for the above-named Company.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

Anthony Wieler Unit Tst Mgmt Ltd (1000)F
19 Widegate St, London E1 7HP 01-377 1010

Growth Income	5	102.1	104.7	111.4	..	1.4
Do Accum	5	143.6	147.2	156.6	..	1.4
Quarterly Income	5	52.07	53.67	57.10	..	7.0

Arkwright Management (1400)F
1 King St, Manchester M60 3AH 061-832 0292

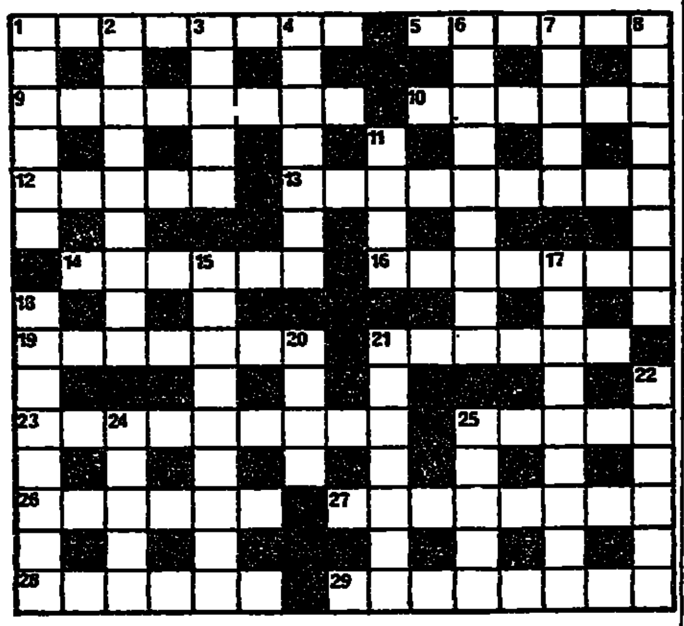
Growth Sept 27	5	91.47	91.47	97.31	+0.93	2.29
Income Sept 27	5	46.16	46.94	49.94	+0.92	4.93

London & Manchester (Tst Mgmt) Ltd (1000)H
Winslade Park, Exeter EX5 1DS 0392 282673

American	5	30.15	30.48	32.36	-0.08	0.8
General	5	47.38	47.62	50.55	-0.22	3.7
Income	5	42.71	43.10	45.75	-0.25	6.0
International	5	35.33	35.64	37.83	-0.07	0.9
Japan	5	49.62	49.85	52.92	-0.08	–
Tst of Inv Trusts	5	35.11	35.87	38.08	-0.11	2.0

CROSSWORD

No. 6,745 Set by FRESCA



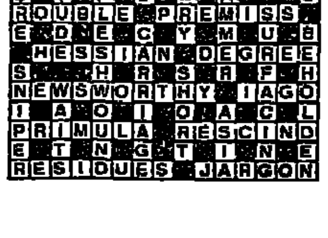
ACROSS

1 Propensity for song shown by writer (8)
5 Nocturnal animal plague (6)
9 One's put in shade: it's so annoying! (8)
10 Mingles quietly with crowds and checks (6)
12 "The — who praises, with enthusiastic tone..." (Gilbert) (5)
13 Like sailors at a party in nude frolic? (9)
14 Famous voyager's dog? (6)
16 Guide's glib talk on nitrogen (7)
19 Exhibition of princess's freedom of movement (7)
21 Cat drops tail and pursue retiring rodents (6)
23 Reserved by listener: ancient vessel in familiar sea (9)
25 Headwear for motorists written about in science fiction (5)
26 S is at home with spouse (6)
27 Fatigue or plain anger? (8)
28 Tentative efforts could be easy though subject of scret police interference (6)
29 Freebooters sailing ship over shifting sand (8)

DOWN

1 Joke said in French by scholar (6)
2 Curiosity about one's lack of silence (9)
3 Male craft centre (5)
4 Special arrangement made for uncle to bat (7)
6 Fit to be up, and deserving a song (9)
7 Arab in win, the first of many (5)
8 Living leader in need of piano (8)
11 Fish to find fault with? (4)
15 Courtesy shown by everybody during bridge (9)
17 Teaching auctioned off? (9)
18 She gets upset when cutting a joint that's sticky (8)
20 Countryman, short of a pound, makes a carrying frame (4)
21 Body of lawyer buried in grotto by right (7)
22 In pursuit of Sunday's dessert? (6)
24 Swindles: Minehead strikes out! (5)
25 Nail that's bound to be pointless? (5)

Solution to Puzzle No.6,744



GUIDE TO UNIT TRUST PRICING

The data included under the Authorised section of the FT Unit Trust Information pages is being expanded to improve the service to readers and to conform with new legislation.

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♠ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that prices are set on a historic basis. This means that, unless there has been an intervening portfolio revaluation, investors can normally buy and sell units today at the prices appearing in the newspaper which have been set on the basis of yesterday's asset value.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes are contained in the last column of the FT Unit Trust Information pages.

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
TSB Unit Trusts (y) (1000)F						
Charlton Pl, Andover, Hants. SP10 1RE 0264 63434						
TSB American	5	101.21	101.21	107.38	-0.77	2.10
Do Accum	5	108.62	108.62	115.43	-0.83	2.10
TSB Brit Growth	5	52.61	52.61	55.97	-0.31	3.38
Do Accum	5	55.06	55.06	58.57	-0.32	3.38
TSB European	5	50.30	50.30	53.51	+0.92	1.15
Do Accum	5	51.66	51.66	54.96	+0.80	1.15
TSB Extra Income	5	141.61	141.61	150.65	-0.66	6.00
Do Accum	5	182.78	182.78	194.45	-0.86	6.00
TSB Smaller Cos	5	52.14	52.14	55.47	-0.07	1.24
Do Accum	5	53.07	53.07	56.46	-0.07	1.24
TSB General	5	172.51	173.35	184.34	-0.38	3.40
Do Accum	5	298.62	299.95	319.10	-0.37	3.40
TSB Gilt & Fxd Int	3½	47.19	47.19	48.81	+0.07	9.03
Do Accum	3½	71.25	71.25	73.69	+0.10	9.03
TSB Income	5	256.47	256.99	273.39	-0.45	5.11
Do Accum	5	427.01	429.55	456.97	+0.76	5.11
TSB Pacific	5	201.67	201.67	214.54	-0.84	0.33
Do Accum	5	209.68	209.68	223.06	-0.87	0.33
TSB International	5	319.26	319.26	340.55	-0.57	1.04
Do Accum	5	401.59	401.59	428.38	-0.72	1.04
TSB Nat Resources	5	59.88	59.88	63.70	-0.40	2.43
Do Accum	5	62.94	62.94	66.96	-0.40	1.43
TSB Stcd Opps	5	77.01	77.01	81.93	-0.36	2.44
Do Accum	5	87.89	87.89	93.50	-0.40	2.44
Target Trust Mngrs Ltd (1600)H						
Target Hse, Gatehouse Rd. Aylesbury, Bucks. Admin 0296 394000 Dealing 01-379 8840						
American Eagle	5	63.67	63.67	68.05	-0.73	0.87
Australia	5	7.306	7.306	7.829	-0.080	0.10
Commodity	5	74.82	74.82	80.84	-0.04	0.61
Convertible	5	138.3	138.3xd	149.1	-0.1	5.13
Equity	5	147.0	147.0	158.4	+0.5	3.30
Euro Spec Sits	5	78.03	78.03	83.76	-0.91	1.63
Financial	5	30.07	30.57xd	32.86	-0.56	2.07
Global Opps Inc	5	55.46	55.46	59.81	....	0.62
Global Opps Acc	5	55.31	55.31	59.56	-0.25	0.63
Gold Income	5	48.46	48.46	51.89	-0.06	0.00
Gold Acc	5	89.26	89.26	95.58	-0.11	0.00
Income	5	102.6	103.4xd	111.1	+1.0	4.57
Japan	5	117.9	117.9xd	127.0	+0.8	0.00
Pacific Inc	5	110.0	110.0xd	118.8	+0.9	0.06

	Bid Price	Offer Price	+ or -
MIM Ltd			
Mngd Pens (Acc)	54.2	57.8	+0.2
Murray Johnstone UT Mngmt			
Murray Exempt Funds			
Amer Expt Sept 28	40.8	42.4	+0.2
Euro Expt Sept 28	41.0	43.0	+0.4
Fixed Int Ex Sept 28	48.6	50.9	+0.5
Japan Expt Sept 28	52.1	54.2	-0.3
Managed Ex Sept 22	38.8	40.3	+0.0
SE Asia Expt Sept 28	35.1	36.8	-0.3
Sm Cos Expt Sept 28	42.6	44.7	-0.2
UK Eqty Ex Sept 28	34.0	35.7	-0.3
New Court Property Fund Managers			
NC Property	189.5	199.5	....
Phillips & Drew Fnd Management Ltd			
PDFM Small Co Fd	772.0	817.0	....
Do Accum	795.0	844.0	....
PDFM Int Expt Sept 22	128.4	130.4	....
J. Rothschild Fund Managers Ltd			
Unit Exempt	91.60	92.75	—

INSURANCES

	Bid Price	Offer Price	+ or -
AA Friendly Society			
Investment Mngt M & G Inv Mngt Ltd			
AA Friendly Sy Sept 8		134.9	....
Abbey Life Assurance Co Ltd			
80 Holdenhurst Road, Bournemouth 0202 292373			
Prop Ser. 1	262.6	276.5	+5.1
Equity Ser. 1	111.9	117.8	-0.5
Prop. Acc. Ser 2	380.2	400.3	+7.3
Equity Ser 2	127.0	133.7	-0.5
Selective Acc	289.2	304.5	+1.7
Prop. Ser. 4	300.3	316.2	+7.2

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

	Bid Price	Offer Price	+ or −	Yield Gross
Pearl Assurance (Unit Funds) Ltd				
252 High Holborn, London WC1V 7EB 01-405 8441				
Prop. Dist. (Gross)	176.5	185.8	—	—
Prop. Acc. (Gross)	285.6	300.7	—	—
Equity (Gross)	646.3	680.4	−3.2	—
Managed (Gross)	466.3	490.9	−1.5	—
Prop. Acc. (Net)	132.0	139.0	—	—
Equity (Net)	151.6	159.6	−0.6	—
Managed (Net)	143.6	151.2	−0.3	—
Internat'nal (net)	131.4	138.4	−0.3	—
Gilt & Fxd Interest	99.6	104.9	+0.1	—
Money Fund	101.0	106.3	—	—
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	440.3	463.5	−1.3	—
Ret Man (Series 2)	149.3	157.2	−0.5	—
Ret Man (Series 3)	98.3	98.3	−0.2	—
Ret Cash	125.1	131.6	—	—
Ret Cash (Series 3)	102.5	102.5	—	—
Phoenix Assurance Co Ltd				
Phoenix House, Redcliff Hill, Bristol 0272 294941				
Life Assurance Funds				
Wealth Assd.	386.7	407.1	—	—
Eb'r Ph. Eq	329.4	350.5	—	—
Pension Plan Funds				
Phoenix				
UK Equity Acc.	166.7	175.4	−0.4	—
International Acc.	143.0	150.5	+0.1	—
Property Acc.	148.9	156.7	+0.4	—
Fixed Interest Acc.	156.2	164.4	+0.6	—
Money Acc.	144.4	151.9	—	—
Bldg. Soc. Link Acc.	141.2	148.6	+0.1	—
Special Mnged. Acc. Q.	152.5	160.5	−0.1	—
Phoenix/Framlington				
Intnl Growth Acc.	88.70	93.30	−0.30	—
Am. Smlr. Cos. Acc.	90.10	94.80	−0.80	—
Capital Tst. Acc.	170.9	179.8	−0.5	—
Japan & Gen Acc.	188.1	198.0	+0.5	—
American Tgrn. Acc.	99.20	104.4	−0.6	—
Recovery Tst. Acc.	177.3	186.6	−0.8	—
Special Mngd Acc.	148.2	156.0	−0.6	—
Phoenix/GT				
International Acc.	133.3	140.3	−0.4	—
US & General Acc.	89.00	93.60	−0.50	—
Amer Spec Sits Acc.	67.60	71.10	−0.90	—
Japan & General Acc.	189.5	199.4	+0.2	—

	Bid Price	Offer Price	+ or −	Yield Gross
Provident Life Assoc Ltd				
Provident Way, Basingstoke RG21 2SZ 0256 470707				
Unit Fund	886.5	930.8	+2.6	—
Equity Fund	200.5	210.5	+0.7	—
International Fd	132.7	139.3	−0.1	—
Fixed Interest Fd	149.7	157.2	+0.4	—
Property Fund	172.7	181.3	—	—
Index-Linked Fund	125.2	131.5	+0.2	—
Deposit Fund	130.2	136.7	+0.0	—
Pens. Mixed (Ord) Fd	204.7	214.9	+0.2	—
Gold Pensions				
Discretionary Fund	99.3		+0.1	—
Equity Fund	97.9		+0.1	—
Fixed Interest Fund	102.4		+0.4	—
International Fund	99.2		−0.1	—
Property Fund	100.0		—	—
Index-Linked Fund	102.1		+0.2	—
Deposit Fund	102.0		+0.0	—
S & F Consolidation	101.0		+0.3	—
S & F Balanced	98.5		+0.0	—
S & F Maximum Growth	94.3		+0.0	—
Provident Mutual Life Assc. Assn.				
Willian Rd, Hitchin, Herts SG4 0LP 0438 739000				
Managed Ord	284.6	299.6	+1.1	—
Managed Init	234.2	246.5	+0.8	—
Equity Ord	396.9	417.8	+2.9	—
Equity Init	326.7	343.9	+2.3	—
Index Linked Gilt Ord	123.6	130.1	+0.1	—
Index Linked Gilt Init	106.2	111.8	—	—
Overseas Equity Ord	256.9	270.4	−0.7	—
Overseas Equity Init	211.4	222.5	−0.6	—
Property Ord	172.5	181.6	—	—
Property Init	142.0	149.5	—	—
Fixed Interest Ord	169.7	178.6	+0.5	—
Fixed Interest Init	139.6	146.9	+0.3	—
Deposit Ord	136.2	143.4	—	—
Deposit Init	112.1	118.0	—	—
Pension Funds				
Managed Ord	344.0	362.1	+1.6	—
Managed Init	283.1	298.0	+1.3	—
Equity Ord	497.0	523.2	+4.1	—
Equity Init	409.0	430.5	+3.3	—
Pen Ind Lkd Gilt Ord	133.3	140.3	—	—
Pen Ind Lkd Gilt Init	114.5	120.5	—	—
Overseas Equity Ord	291.5	306.8	−0.9	—
Overseas Equity Init	239.9	252.5	−0.7	—

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1988 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
99	83	Redemption 3pc 1986-96	99¼xd			
100¼	99	Treas. 9½pc '88	99		9.51	11.71
102	99	Treas 11½pc 1989	100		11.49	11.01
101	98	Treas 9½pc Cnv 1989	99		9.56	10.84
97	95	Treas 3pc 1989	96		3.10	8.42
102	99	Treas 10½pc 1989	99		10.53	10.82
102	98	Exch. 10pc 1989	99		10.06	10.76
103	99	Exch 11pc 1989	100		10.97	10.70
97	94	Treas 5pc 1986-89	95		5.24	9.67
104	98¾	Exch 10¼pcCv '89	99		10.29	10.55
107½	102¼	Treas 13pc 1990‡‡	103		12.57	10.03
104	100	Exch 11pc 1990‡‡	101		10.87	9.97
107	102	Exch. 12½pc 1990	103		12.11	10.16
93¾	90	Treas. 3pc 1990	92		3.29	9.05
99¾	95	Treas 8¼pc 1987-90‡‡	96		8.50	10.19
102¼	95¼	Treas. 8pc Cv 1990 ‡‡	98		8.17	9.24
103	98	Treas. 10pcCv 1990	99		10.03	10.16
91	87	Exch 2½pc 1990	88		2.83	8.59
107	101	Treas 11¼pc 1991	103		11.40	10.16
95	90	Funding 5¾pc '87-91‡‡	91		6.30	9.76
90	86	Treas. 3pc 1991	86¼		3.46	8.76
105	98	Treas 10pc Cv '91 ‡‡	100		10.00	9.985
107	100	Exch 11pc 1991	102		10.76	10.14
98	92	Treas 8pc 1991	94		8.50	10.17
113	105	Treas 12¾pc 1992‡‡	107		11.89	10.09
104	98	Treas 10pc 1992	99		10.02	10.07
98	92¼	Treas. 8pc 1992 ‡‡	93		8.52	10.11
106¼	99½	Treas 10½pc Cv 1992‡‡	101		10.38	10.10
86	82	Treas. 3pc 1992	82		3.61	8.43
112	104	Exch. 12¼pc '92	106		11.48	10.11
117	108	Exch 13½pc 1992	110		12.19	10.15
97	91	Treas 8¼pc 1993	93		8.81	10.07
105	97	Treas 10pc 1993‡‡	99		10.01	10.02
115	107	Treas 12½pc 1993‡‡	108		11.47	10.08
93	87	Funding 6pc 1993‡‡	88		6.81	9.03

Five to Fifteen Years

1988 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
121	112	Treas 13¾pc 1993‡‡	113		12.06	10.16
101	91	Treas 8½pc 1994	93		9.09	10.08
94	91	Treas 8½pc 1994 A	93			
125	115	Treas 14½pc 1994‡‡	118		12.27	10.08
120	111	Exch 13½pc 1994	113		11.88	10.23
105	98	Treas. 10pc Ln 1994‡‡	100		10.00	9.99
116	107	Exch. 12½pc 1994	109¼		11.39	10.25
101	93	Treas 9pc 1994‡‡	95		9.41	9.96
114	105	Treas 12pc 1995	108		11.10	10.20
83½	78½	Exch 3pc Gas 90-95	81xd		3.71	6.59
106	98¼	Exch. 10¼pc 1995	100	+1	10.17	10.07
120	111	Treas 12¾pc 1995‡‡	112		11.29	10.14
126	116	Treas. 14pc '96	118		11.78	10.25
101	93¼	Treas. 9pc 1992-96‡‡	95		9.42	9.85
133¾	123	Treas 15¼pc 1996‡‡	126xd		12.10	10.24
123	114	Exch 13¼pc 1996‡‡	116		11.41	10.14
105¼	97	Conversion 10pc 1996	99		10.05	10.07
124	115	Treas. 13¼pc 1997‡‡	117		11.30	10.11
108	100	Exch 10½pc 1997	102		10.24	10.04
98	91	Treas 8¾pc 1997‡‡	93		9.36	9.86
134	125	Exch 15pc 1997	127xd		11.84	10.30
104	96	Exch. 9¾pc 1998	98		9.90	9.99
87	81	Treas 6¾pc 1995-98‡‡	83¼xd		8.11	9.45
140¼	130	Treas. 15½pc '98‡‡	132½xd		11.67	10.19
118	109	Exch 12pc 1998	111		10.73	10.09
103	95	Treas 9½pc 1999‡‡	98		9.68	9.78
120	111	Exch 12¼pc 1999	113		10.75	10.06
109	101	Treas. 10½pc 1999	103		10.14	9.95
107	99	Conversion 10¼pc 1999	101		10.05	9.94
100¼	86	Treas 8½pc Ln 2000‡‡	91		9.26	9.70
99	92¼	Conversion 9pc 2000‡‡	95		9.46	9.72
126	117	Treas 13pc 2000	119¼		10.84	10.07
106	98	Treas 10pc 2001	101		9.88	9.81
129	120¼	Treas. 14pc '98-01	122½		11.42	10.24
104¾	97	Conversion 9¾pc 2001	99		9.77	9.78
118	109	Exch. 12pc '99-02	111		10.72	10.09
107½	99	Conversion 10pc 2002	101xd		9.81	9.74
105	97	Treas 9¾pc 2002	100¼		9.73	9.17
99¾	92	Exch 9pc 2002	94¾		9.49	9.67
131	122	Treas. 13¾pc 2000-03	124		11.04	10.13
108	100¼	Treas 10pc 2003	102	+½	9.73	9.64

Over Fifteen Years

1988 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
117	108	Treas. 11½pc 2001-04	111	+½	10.33	9.90
108¼	100	Treas 10pc 2004	103		9.68	9.58
157¼	54	Funding 3½pc '99-04	58¼		6.00	8.26
104	97	Conversion 9½pc 2004	99xd		9.49	9.49
104	97	Conversion 9½pc 2005	100xd		9.47	9.46
113	105	Exch 10½pc 2005	108½		9.66	9.46
128	118	Treas 12½pc 2003-05	121		10.27	9.71
92	85	Treas. 8pc 2002-06‡‡	88½xd		9.06	9.35
106	99	Conversion 9¾pc 2006	102¼		9.48	9.41
121	112	Treas. 11¾pc 2003-07	115		10.17	9.70
97	89	Treas 8½pc 2007 ‡‡	93¼	+½	9.10	9.23
137	127	Treas. 13½pc '04-08	130¾	+¼	10.33	9.64
101	94	Treas. 9pc 2008 ‡‡	98xd		9.17	9.20
92	85	Treas 8pc 2009	89		8.97	9.17
101	93¼	Conv 9pc Ln 2011 ‡‡	98		9.12	9.13
68¼	62¼	Treas. 5½pc 2008-12‡‡	66¼	+½	8.24	8.87
89	82	Treas. 7¾pc 2012-15‡‡	86	+½	8.91	9.05
130	121	Exch. 12pc '13-'17	127	+¾	9.42	9.18

BRITISH FUNDS—Contd

Undated

Index-Linked

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing. ... RPI for January 1988: 103.3 and for August 1988: 107.9

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Norway Fund Management A/S

	Bid Price	Offer Price	+ or -	Yield Gross
SM Norway Gth Fd.	76 04	79.88		3.84

Oppenheimer Managed Assets Co

	Bid Price	Offer Price	+ or -	Yield Gross
European Managed	SFr52.77	56 09	-0.48	-
Global Income	$8.77	9 32	+0.03	6.84
International Managed	$6.98	7.41	+0.03	-
Pacific Managed	$7.79	8.28	-0.06	-
Worldwide Recovery	$8.89	9.45	-0.04	-

Scimitar Worldwide Selection Fund Limited

Equity Class Funds

	Bid Price
American	$20 60
Asian Smlr Mkts	$7 43
European	$9 02
Gold	$4.43
Japanese	$21 89
Pacific Basin	$15 71
Utd Kingdom	£7 37

Tyndall International (Isle of Man) Ltd

H I Gilt and Bulldog	109.1	114 7	+0 5	11.33
(Accum Shares)	144 9	152 3	(z)	-

Tyndall International (Jersey) Ltd

Wall Street	201.2	213.0d	-0 4	0 60
Far Eastern	473.5	503 0d	+1 9	0.28
1992 Fd.	212.9	226 8d	+0 7	0.50
Intl Inc Fund	229 0	243 4	-0.1	3.34
(Non-J Acc Units)	674.5	716 9	-0 2	-
Gilt Fd	121.6	128.5d	+0.5	9.33
(Accum Shares)	475 0	501 6	+1 8	-
Managed Currency Stg	102.9	108 1d	-	-
Managed Currency Dllr	1 352	1 421d	-	-
Portfolio Sel-Managed	163.2	172 8d	(z)	-
Portfolio Sel-American	101.5	107 4d	(z)	-
Portfolio Sel-Far East	197 8	210 1d	(z)	-
Portfolio Sel-European	202.4	214.4d	(z)	-

USA Income Portfolio

NAV Sept 26	$9.04	-0 01	-

US Federal Securities Fund SA

NAV Sept 26	$9 47	-0 01	-

US Pacific Stock Fund

NAV Sept 27	$15.14		-

U.S. Treasury Securities Fund Ltd

Short Term Shares	$622.23		-
Fixed Income Shares	$745.41		-

Unico Invest Fd Mgt Co SA Lux

London & Continental Bankers Ltd

Unico Invest. Fund.	DM75.36	77 70		3 00
Unico Equity Fund.	DM53 45	55 05		3 00

Viking Fund-SICAV

♦NAV Sept 27 Ecu 108 76

Warburg Investment Management Jersey Ltd

Metals Trust Sept 15	£21 56	22 10		-
Energy Int.		$77.97		-
Mercury Bond Sept 21	$25.67	25 69		2.96
Mercury Far Eastern Trust Ltd				
Japan Fund Sept 21	£51 01	53 57		0 09
Pacific Fund Sept 21	£40.92	42.98		2.86

Warburg Inv Mngmt (Isle of Man) Ltd

Merc IoM Fund	108.2	114 6	+0 4	5 0
Merc Intl Bond	49.3	52.2	+0.2	9.1
Mercury 90:10 Trust (Sterl)				
Dollar Fd BOPUPs	$10 28	10.29		-
Dollar Fd OPUPs	$8 80	8 88		-
Sterling Fd BOPUPs	£10.31	10.32		-
Sterling Fd OPUPs	£9.71	9.79		-
DM Fd BOPUPs	DM10 10	10.11		-
DM Fd OPUPs	DM9 71	9 79		-
Yen Fd BOPUPs	$9 45	9.46		-
Yen Fd OPUPs	$8.79	8.87		-

Wardley Fund Managers (Jersey) Ltd

Wardley Japan Trust	$12.02	12 76	+0 01	0 16
Wardley Gilt Fund	£1.07	1 12	+0 01	8 93
Wardley Prin Cap Tst.	$16.42	17.42	-0.04	0 86
Wardley Int Equity Tst	$10 36	10.99	-0 01	0
Wardley Bond Tst.	$14 15	14 95	+0.05	5 69
Wardley Global Selection				
Australasia Equity	$7 54	8.01	+0 02	-
Canada Equity	$8 56	9 08	+0 01	-
Europe Equity	$7 33	7 79	+0 05	-
Hong Kong Equity	$8.09	8.59	-0 01	-
Japan Equity	$9 53	10 11	+0.01	-
Singapore & Malaysia	$7.87	8.36	-0.12	-
UK Equity	$8 43	8 94	+0 06	-
USA Equity	$7 58	8 05	-0 01	-
Deutsche Mark Bond	DM47 46	50 09	+0 01	-
Ecu Bond	Ecu93.19	98.34	+0 01	-
Japanese Yen Bond	Y948	1001	-5	-
Sterling Bond	£4 61	4 87	+0.01	-
Swiss Franc Bond	SFr48.20	50.87	+0 09	-
US Dollar Bond	$9 13	9 64	+0.01	-

Bank of Ireland High Interest Cheque Acc

36 Queen St. EC4R 1BN 01-329 4500

2,000-9,999	11 238	8.625	11 877	Qtr
£10,000+	11 564	8.875	12 233	Qtr

Bank of Scotland

38 Threadneedle St. EC2P 2EH. 01 601 6746

Money Mkt Cheque Acc	10 60	8 13	11.26	Mth

Barclays Prime Account

PO Box 125 Northampton 0604 252891

H I C A £1,000-£2,499	9 50	7 325	10 03	Qtr
£2,500+	9 800	7.625	10 460	Qtr

Benchmark Bank PLC Premier Account

9 Henrietta Place, W1M 9AG. 01-631 3313

£2 500-£10,000	11.00	8 44	11 49	6-mth
£10,001-£20,000	11 25	8.63	11 75	6-mth
£20 000+	11.75	9.02	12.30	6-mth

Brown Shipley & Co Ltd

Founders Court, Lothbury, London EC2. 01-606 9833

Demand Acc	10.50	8.06	11.07	Qtr.

Charterhouse Bank Limited

1 Paternoster Row EC4M 7DH. 01-248 4000

Sterling	10 50	8 06	11.15	Mth
U S Dollar	7 00	5.37	7 34	Mth
German Marks	3 50	2.60	3 63	Mth
Swiss francs	2.00	1 45	2 06	Mth
Japanese Yen	3.00	2.30	3 10	Mth

Citibank Savings

St Martins Hse. Hammersmith Grove W6 01-741 4941

Money Market Plus

£2 000-£24 999	9 00	7.25	9 99	Mth
£25,000	9.50	7.75	10.71	Mth

Clydesdale Bank PLC

30 St Vincent Place, Glasgow G1 2HL 041 248 7070

High Int Chq Acc	10 5	8 00	10.99	Qtr

Co-operative Bank Top Tier

78-80 Cornhill EC3 01-626 6543

£1,000-£2,499	8 28	6.35	8 61	Qtr
£2,500-£9,999	9.38	7 20	9 77	Qtr
£10,000+	9 78	7 50	10 20	Qtr

Dartington & Co Ltd

9 The Crescent, Plymouth PL1 3AB 0752 673873

Money Mkt Acc	10.50	8.06	11.09	Qtr

Financial & General Bank plc

13 Lowndes Street, London, SW1X 9EX 01-235 0036

H I D A £5,000-£15,000	11 00	8 25	11 22	Qtr
H I D A £15,000+	11.47	8.62	11.73	Qtr

Gartmore Money Management Ltd

61 Queen St. London EC4R 1PH 01-236 1425

Money Mngt. Acct.	10 3125	7 91	10 88	Mth

Girobank plc High Interest Cheque Acc

10 Milk St London EC2V 8JH 01 600 6020

£1,000-£3 999	8 50	7 50	10 00	Yearly
£4 000-£9,999	9 75	7 60	10 40	Yearly
£10,000+	10.75	8.75	11 67	Yearly

Grofund Inv Mngrs/Allied Irish Bank

High Interest Cheque Account

8-9 Austin Friars, London EC2N 2AE 01-588 5317

£1 500+	11 30	8.67	11 56	Qtr

Humberclyde Finance Group

Charley Cl. Winchester Rd. Basingstoke 0256 846833

£250-£2,500	10 00	7 68	10.46	Qtr
£2,500+	12 00	9.21	12.59	Qtr

Lloyds Bank High Interest Cheque Account

71 Lombard St. London EC3P 3BS 01-407 1000

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Trade figures boost pound

STERLING ROSE sharply in currency markets yesterday, after better than expected trade figures for August. The current account shortfall of £1.31bn - although the second worst on record - was still a considerable improvement on July's record £2.15bn deficit.

The figures were released at the same time as a statement by Mr Nigel Lawson, UK Chancellor of the Exchequer, which stressed that the tightening of monetary conditions over the last few months would take time to show a beneficial effect, as measured by regular monthly data.

Nevertheless, investors breathed a sigh of relief, since the August figures were not only an improvement over July, but were also better than most forecasters had projected.

Sterling opened the day on a slightly firmer note, as traders moved to cover short positions. This proved to be a wise move, as sterling quickly pushed through key resistance against the D-Mark at DM3.1500 to finish at DM3.1550, up from DM3.1375 on Monday. Against the dollar, sterling moved up to $1.6785 from $1.6670, and was also higher against the yen at Y225.75 from Y224.50. Elsewhere it finished at SFr2.6700 from SFr2.6575 and FFr10.7350 compared with FFr10.6825.

However, some dealers are a little more cautious, stressing that one set of figures is insufficient to establish a trend. But the short-term view prevailed, and the pound's exchange rate index moved up to 75.6 at the close, compared with 75.4 at the opening, and 75.2 at Monday's close.

The dollar finished slightly down from overnight levels. Monday's intervention by central banks deterred any attempt to push through the DM1.8900 level, and investors were more inclined to test the dollar's downside potential.

However, there was never a successful attempt to test support at DM1.8780, and the dollar closed at DM1.8790, down from DM1.8830 on Monday. Against the yen it slipped to Y134.45 from Y134.65, and finished elsewhere at SFr1.5905 from SFr1.5935 and FFr6.3950 compared with FFr6.4075. On Bank of England figures, the dollar's exchange rate index fell from 100.0 to 99.7.

The overall view on the dollar suggests that central banks are likely to respond to any sharp fluctuations, and keep the US unit within its recent trading range. Investor confidence has been compromised by a central bank desire to hold the dollar steady. Governing factors include the proximity of US presidential elections and the absence of major economic data. Friday sees the release of leading economic indicators and new home sales for August, but these are the only statistics due for release until October 7, when US employment data for September are published.

Trading within the EMS was relatively subdued. While investors showed concern about the recent weakness of the French franc, fears of an early re-alignment of EMS parities tended to dissipate. Dealers suggested that as long as the dollar remains steady against the D-Mark, there is unlikely to be any renewed pressure on the weaker members of the EMS.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Sept.27	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.4662	+2.37	+0.94	±1.5344
Danish Krone	7.85212	7.95131	+1.26	-0.17	±1.5404
German D-Mark	2.05853	2.07456	+0.78	-0.65	±1.0981
French Franc	6.90403	7.05944	+2.25	+0.82	±1.3674
Dutch Guilder	2.31943	2.33859	+0.83	-0.60	±1.5012
Irish Punt	0.768411	0.773475	+0.66	-0.77	±1.6684
Italian Lira	1483.58	1546.44	+4.24	+3.37	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Sept.27	Latest	Previous Close
£ Spot	1.6780-1.6785	1.6730-1.6735
1 month	0.49-0.48pm	0.46-0.44pm
3 months	1.43-1.41pm	1.49-1.47pm
12 months	4.50-4.45pm	4.88-4.83pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Sept.27	Previous
8.30 am	75.4	75.0
9.00 am	75.3	75.0
10.00 am	75.3	75.1
11.00 am	75.3	75.0
Noon	75.4	75.0
1.00 pm	75.5	75.1
2.00 pm	75.5	75.1
3.00 pm	75.7	75.2
4.00 pm	75.6	75.2

CURRENCY RATES

Sept.27	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.774178	0.656993
U.S Dollar	6.50	1.28591	1.10243
Canadian $	8.75	1.57010	1.34199
Austrian Sch.	4	17.0923	14.5951
Belgian Franc	7	50.8899	43.4662
Danish Krone	7½	9.30420	7.95131
Deutsche Mark	3½	2.42934	2.07456
Neth.Guilder	4	2.73835	2.33859
French Franc	9½	8.26840	7.05944
Italian Lira	12½	1810.82	1546.44
Japanese Yen	2½	173.276	148.311
Norway Krone	8	8.94736	7.64924
Spanish Peseta	-	161.112	137.573
Swedish Krona	8½	8.32048	7.12062
Swiss Franc	3	2.05424	1.75563
Greek Drach.	20½	196.821	168.165
Irish Punt	-	0.903788	0.773475

*All SDR rates are for Sept.26

CURRENCY MOVEMENTS

Sept.27	Bank of England Index	Morgan** Guaranty Changes %
Sterling	75.6	-17.1
U.S Dollar	99.7	-8.3
Canadian Dollar	85.0	-2.7
Austrian Schilling	133.6	+9.9
Belgian Franc	97.8	-5.9
Danish Krone	88.9	+0.2
Deutsche Mark	143.9	+20.9
Swiss Franc	164.5	+19.0
Guilder	132.5	+13.5
French Franc	68.5	-15.2
Lira	44.8	-21.2
Yen	239.4	+77.0

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100)**Rates are for Sept.26.

OTHER CURRENCIES

Sept.27	£	$
Argentina	20.0115 - 20.1575	11.9200 - 12.0000
Australia	2.1435 - 2.1465	1.2765 - 1.2775
Brazil	584.95 - 588.10	348.30 - 350.00
Finland	7.4540 - 7.4670	4.4390 - 4.4410
Greece	252.80 - 257.15	151.15 - 153.70
Hong Kong	13.1135 - 13.1300	7.8100 - 7.8120
Iran	119.00*	71.10*
Korea(Sth)	1199.40 - 1209.05	716.80 - 722.60
Kuwait	0.48470 - 0.48490	0.28450 - 0.28480
Luxembourg	66.10 - 66.20	39.35 - 39.45
Malaysia	4.4815 - 4.4930	2.6705 - 2.6725
Mexico	3778.85 - 3797.25	2250.00 - 2260.00
N. Zealand	2.7100 - 2.7150	1.6130 - 1.6155
Saudi Ar.	6.2930 - 6.2965	3.7495 - 3.7505
Singapore	3.4225 - 3.4290	2.0395 - 2.0415
S. Af (Cm)	4.1765 - 4.1875	2.4860 - 2.4875
S. Af (Fn)	6.6530 - 6.7875	3.9605 - 4.0405
Taiwan	48.20 - 48.45	28.90 - 29.00
U.A.E.	6.1635 - 6.1670	3.6725 - 3.6735

*Selling rate

POUND SPOT- FORWARD AGAINST THE POUND

Sept.27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6675 - 1.6815	1.6780 - 1.6790	0.48-0.45cpm	3.32	1.42-1.37pm	3.32
Canada	2.0370 - 2.0535	2.0450 - 2.0460	0.31-0.19cpm	1.47	0.79-0.62pm	1.38
Netherlands	3.54½ - 3.56½	3.55 - 3.56	2-1¾cpm	6.33	5⅝-5⅜pm	6.19
Belgium	65.80 - 66.40	66.10 - 66.20	30-18cpm	4.35	81-65pm	4.41
Denmark	12.04½ - 12.12¼	12.09 - 12.10	4⅞-3⅝cpm	4.22	12-10½pm	3.72
Ireland	1.1695 - 1.1795	1.1745 - 1.1755	0.43-0.39pm	4.19	1.36-1.24pm	4.43
W. Germany	3.14½ - 3.16¼	3.15¼ - 3.15¾	1⅞-1⅝pfpm	6.66	5½-5¼pm	6.74
Portugal	258.20 - 260.50	259.00 - 260.00	15-56cdis	-1.64	62-156dis	-1.68
Spain	208.55 - 209.70	208.90 - 209.20	3pm-11cdis	-0.23	10pm-16dis	-0.06
Italy	2343¾ - 2356¼	2349½ - 2350½	1pm-2liredis	-0.26	5-parpm	0.43
Norway	11.60 - 11.67	11.63 - 11.64	⅝-1⅝oredis	-1.10	3⅝-4½dis	-1.35
France	10.71¼ - 10.77	10.73 - 10.74	3½-3¼cpm	3.77	11-10½pm	3.96
Sweden	10.80 - 10.86	10.82½ - 10.83½	1⅝-1⅞orepm	1.94	4⅞-3⅝pm	1.57
Japan	224¾ - 226¼	225¼ - 226¼	1⅜-1¼ypm	6.98	4-3¾pm	6.87
Austria	22.10 - 22.25	22.14 - 22.18	2-1⅞gropm	1.05	35¾-32¼pm	6.10
Switzerland	2.65⅛ - 2.67¼	2.66½ - 2.67½	2-1⅞cpm	8.71	5⅝-5⅜pm	8.33

Belgian rate is convertible francs. Financial franc 66.85-66.95. Six-month forward dollar 2.51-2.46cpm 12 months 4.37-4.27cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Sept.27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6675 - 1.6815	1.6780 - 1.6790	0.48-0.45cpm	3.32	1.42-1.37pm	3.32
Ireland†	1.4235 - 1.4275	1.4260 - 1.4270	0.16-0.21cdis	-1.56	0.45-0.55dis	-1.40
Canada	1.2160 - 1.2200	1.2180 - 1.2190	0.17-0.21cdis	-1.87	0.57-0.63dis	-1.97
Netherlands	2.1175 - 2.1250	2.1180 - 2.1190	0.52-0.50cpm	2.88	1.47-1.43pm	2.73
Belgium	39.30 - 39.45	39.35 - 39.45	4.50-2.50cpm	1.07	12.00-8.00pm	1.01
Denmark	7.19¾ - 7.22	7.20¼ - 7.20¾	0.80-0.30oredis	0.92	0.80-0.30dis	0.31
W. Germany	1.8775 - 1.8835	1.8785 - 1.8795	0.55-0.52pfpm	3.41	1.58-1.53pm	3.31
Portugal	155 - 156¼	155 - 155¼	55-75cdis	-5.03	175-225dis	-5.16
Spain	124.20 - 125.00	124.50 - 124.60	30-40cdis	-3.37	105-120dis	-3.61
Italy	1399 - 1404½	1399¾ - 1400¼	3.70-4.70liredis	-3.59	10.00-12.00dis	-3.14
Norway	6.92¼ - 6.96¼	6.93 - 6.93½	2.40-2.75oredis	-4.46	8.25-8.65dis	-4.87
France	6.39 - 6.41¼	6.39¼ - 6.39¾	0.39-0.32cpm	0.67	0.90-0.70pm	0.50
Sweden	6.44 - 6.47¼	6.45 - 6.45½	0.95-1.20oredis	-2.00	2.85-3.25dis	-1.89
Japan	134.35 - 134.65	134.40 - 134.50	0.41-0.38ypm	3.52	1.17-1.12pm	3.40
Austria	13.21¾ - 13.25	13.22 - 13.22½	3.55-3.25gropm	3.08	9.40-8.40pm	2.69
Switzerland	1.5875 - 1.5935	1.5900 - 1.5910	0.73-0.70cpm	5.39	1.98-1.93pm	4.91

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 39.80-39.90.

EURO-CURRENCY INTEREST RATES

Sept.27	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	11½-11¼	11⅝-11⅜	11¾-11⅝	12-11⅞	12-11⅞	11⅞-11⅞
US Dollar	8¾-8⅝	8⅝-8⅝	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞
Can. Dollar	10-9¾	10-9¾	10-9¾	10⅞-10⅛	10⅞-10⅛	10⅞-10⅛
D. Guilder	5⅛-5⅛	5⅛-5⅛	5⅛-5⅛	5⅝-5⅛	5⅞-5⅞	5⅞-5⅞
Sw. Franc	2⅝-2⅛	3¼-3	3⅜-3⅛	3⅞-3⅝	3⅞-3¾	3⅞-3⅞
Deutschmark	4⅞-4⅞	5-4⅞	5-4⅞	5-4⅞	5⅛-5⅛	5⅞-5⅞
Fr. Franc	7⅞-7⅞	7½-7⅜	7⅝-7½	7⅞-7⅞	8⅛-8	8⅞-8⅞
Italian Lire	12-10	13-11½	12-11½	11⅞-11⅞	11⅞-11½	11⅞-11⅞
B. Fr. (Fin)	7⅞-7⅞	7⅞-7⅞	7⅞-7⅞	7⅞-7⅞	7⅞-7⅞	7⅞-7⅞
B. Fr. (Con.)	7⅞-7	7⅞-7	7⅞-7⅞	7⅞-7⅞	7⅞-7⅞	7⅞-7⅞
Yen	4⅞-4⅛	7-6⅞	5⅞-5⅛	5⅞-4⅞	5⅞-4⅞	5⅞-4⅞
D. Krone	7⅞-7⅞	7⅞-7⅞	7⅞-7½	8⅞-7⅞	8⅞-8⅞	8⅞-8½
Asian $Sing	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	8⅞-8½	8⅞-8⅞

- Long term Eurodollars: two years 9⅜-9¼ per cent; three years 9⅞-9⅞ per cent; four years 9⅞-9⅞ per cent; five years 9⅞-9⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Sept.27	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.679	3.155	225.8	10.74	2.670	3.555	2350	2.046	66.15
$	0.596	1	1.879	134.5	6.397	1.590	2.117	1400	1.219	39.40
DM	0.317	0.532	1	71.57	3.404	0.846	1.127	744.8	0.648	20.97
YEN	4.429	7.436	13.97	1000.	47.56	11.82	15.74	10407	9.061	293.0
F Fr.	0.931	1.563	2.938	210.2	10.	2.486	3.310	2188	1.905	61.59
S Fr.	0.375	0.629	1.182	84.57	4.022	1	1.331	880.1	0.766	24.78
H Fl.	0.281	0.472	0.887	63.52	3.021	0.751	1	661.0	0.576	18.61
Lira	0.426	0.714	1.343	96.09	4.570	1.136	1.513	1000.	0.871	28.15
C $	0.489	0.821	1.542	110.4	5.249	1.305	1.738	1149	1	32.33
B Fr.	1.512	2.538	4.769	341.3	16.24	4.036	5.374	3553	3.093	100.

Yen per 1,000: French Fr. per 10. Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Payments news lifts prices

STERLING INTEREST rate contracts rose on Liffe yesterday, in reaction to the UK trade figures for August. A visible trade deficit of £1.8bn, and a current account shortfall of £1.3bn, was greeted with relief, but traders suggested the reaction in the market was probably exaggerated.

It was suggested that the deficit may have passed its worst point, but remains unacceptably high. A fall of 9 p.c. in UK imports was welcomed, but only offset an exceptionally high import figure in July, according to dealers.

December three-month sterling deposits opened at 88.01, and fell to a low of 87.80 before the trade figures. The contract then jumped to a high of 88.26, and closed at 88.24, compared with 87.95 on Monday.

A level of around 88.35 is seen as a possible target, based on chart resistance points, but this will be pointing to a cut in bank base rates, at a time when the UK has just recorded its second worst current account deficit in history.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
90	530	605	2	7
92	334	420	6	22
94	153	251	25	53
96	46	140	118	142
98	14	54	250	256
100	4	24	440	426
102	2	9	638	611

Estimated volume total, Calls 5772 Puts 4122
Previous day's open int. Calls 19733 Puts 22478

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
80	738	726	6	30
82	545	550	13	54
84	360	419	28	173
86	227	301	59	205
88	117	202	149	306
90	36	119	304	423
92	15	51	447	555

Estimated volume total, Calls 233 Puts 158
Previous day's open int. Calls 6685 Puts 3131

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Oct	Calls-settlements Nov	Puts-settlements Oct	Puts-settlements Nov
16500	1662	1685	2	25
17000	1177	1234	17	74
17500	733	838	73	178
18000	383	520	223	360
18500	161	292	501	632
19000	52	147	892	987
19500	13	67	1353	1407

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 2 Puts 6

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls-settlements Oct	Calls-settlements Nov	Puts-settlements Oct	Puts-settlements Nov
150	—	—	—	—
155	1275	1275	0	7
160	775	775	5	45
165	315	374	69	172
170	69	142	323	440
175	6	39	760	837
180	0	8	1254	1306

Estimated volume total, Calls 1 Puts 400
Previous day's open int. Calls 42 Puts 3310

LIFFE EURODOLLAR OPTIONS
$1m points of 100%

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
9050	77	95	6	17
9075	57	76	11	23
9100	38	59	17	31
9125	23	45	27	42
9150	13	31	42	53
9175	7	22	61	69
9200	4	15	83	87

Estimated volume total, Calls 150 Puts 55
Previous day's open int. Calls 2697 Puts 3884

LIFFE SHORT STERLING

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
8775	66	124	17	17
8800	48	105	24	23
8825	33	87	34	30
8850	23	71	49	39
8875	15	56	66	49
8900	9	44	85	62
8925	5	33	106	76

Estimated volume total, Calls 3773 Puts 3436
Previous day's open int. Calls 14917 Puts 13214

PHILADELPHIA SE £/$ OPTIONS
£31,250 (cents per £1)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
1.600	7.75	7.75	7.93	8.41	0.04	0.37	0.90	2.31
1.625	5.26	5.53	5.90	6.73	0.05	0.77	1.60	3.21
1.650	3.00	3.63	4.24	5.27	0.40	1.47	2.35	4.30
1.675	1.45	2.17	2.89	4.02	1.33	2.45	3.55	5.61
1.700	0.51	1.35	1.98	3.03	2.71	3.87	5.06	7.11
1.725	0.02	0.64	1.26	2.22	4.79	5.73	6.81	8.66
1.750	0.03	0.27	0.74	1.77	7.14	7.83	8.67	10.47

Previous day's open int: Calls 407,042 Puts 364,645
Previous day's volume: Calls 15,170 Puts 7,240

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls-settlements Oct	Nov	Dec	Mar	Puts-settlements Oct	Nov	Dec	Mar
1.650	3.05	3.75	4.40	5.45	1.05	2.15	3.25	5.25
1.700	0.85	1.55	2.20	3.25	3.75	4.85	6.05	8.10
1.750	0.45	0.70	1.10	2.00	8.30	8.95	9.85	11.65
1.800	0.40	0.45	0.65	1.25	13.30	13.65	13.50	15.75
1.850	0.40	0.45	0.50	0.85	18.20	18.55	19.00	20.15
1.900	-	-	0.50	1.55	-	-	22.50	25.30
1.950	-	-	0.45	1.40	-	-	17.60	20.40

Estimated volume total, Calls N/A Puts N/A
Previous day's open int: Calls 211 Puts 192

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Sep	95-03			94-18
Dec	95-14	95-23	94-21	94-29

Estimated Volume 37984 (18583)
Previous day's open int. 27991 (28002)

7-10 YEAR 9% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Sep	94-01			93-21
Dec	93-30	93-31	93-09	93-16

Estimated Volume 100 (0)
Previous day's open int. 1331 (1331)

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

	Close	High	Low	Prev.
Dec	101.96	101.98	101.76	101.67
Mar	100.85			100.60

Estimated Volume 339 (245)
Previous day's open int. 471 (464)

THREE MONTH STERLING
£500,000 points of 100%

	Close	High	Low	Prev.
Dec	88.24	88.26	87.80	87.95
Mar	88.82	88.83	88.45	88.54
Jun	89.10	89.13	88.78	88.84
Sep	89.25	89.24	89.00	89.07

Est. Vol. (inc. figs. not shown) 41943 (14212)
Previous day's open int. 40620 (40686)

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Sep	180.90	181.20	177.30	178.60
Dec	181.60	182.40	178.70	180.10
Mar				

Estimated Volume 4813 (2273)
Previous day's open int. 15078 (15076)

THREE MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev.
Dec	91.21	91.22	91.19	91.28
Mar	91.28	91.28	91.24	91.31
Jun	91.09	91.09	91.06	91.12
Sep	90.86	90.86	90.81	90.88

Est. Vol. (inc. figs. not shown) 5015 (3343)
Previous day's open int. 27697 (28092)

US TREASURY BONDS 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
Dec	87-20	87-21	87-08	87-17
Mar	86-30			86-31
Jun				

Estimated Volume 6346 (4403)
Previous day's open int. 9592 (9380)

CURRENCY FUTURES

LIFFE-STERLING £25,000 $ per £

	Close	High	Low	Prev.
Dec	1.6667	1.6603	1.6603	1.6527
Mar	1.6540			1.6397
Jun	1.6420			1.6295

Estimated Volume 1 (0)
Previous day's open int. 175 (179)

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6785	1.6739	1.6646	1.6537	1.6353

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Dec	1.6656	1.6694	1.6616	1.6574
Mar	1.6540	1.6610	1.6510	1.6460
Jun	1.6420	1.6420	-	1.6318

CHICAGO

U.S. TREASURY BONDS (CBT) 8%
$100,000 32nds of 100%

	Latest	High	Low	Prev.
Dec	87-16	87-21	87-09	87-16
Mar	86-31	87-03	86-25	86-31
Jun	86-16	86-16	86-11	86-14
Sep	85-31	85-31	85-27	85-30
Dec	85-14	85-14	85-11	85-14
Mar	84-31	84-31	84-28	84-31
Jun	84-16	84-16	84-13	84-16
Sep	-	-	-	-
Dec	83-20	83-20	83-17	83-20
Mar	83-07	83-07	83-04	83-07
Jun	82-26	82-26	82-23	82-26

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
Dec	92.63	92.63	92.63	92.66
Mar	92.63	92.64	92.61	92.65
Jun	92.47	-	92.45	92.49
Sep	92.27	-	92.25	92.29
Dec	92.09	-	92.08	92.11
Mar	92.12	-	92.12	92.13
Jun	92.07	-	92.07	92.08

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
Dec	0.6356	0.6359	0.6349	0.6354
Mar	0.6417	0.6425	0.6410	0.6420
Jun	0.6495	-	0.6495	0.6496

JAPANESE YEN (IMM)
Y12.5m $ per Y100

	Latest	High	Low	Prev.
Dec	0.7495	0.7500	0.7488	0.7487
Mar	0.7559	0.7562	0.7559	0.7550
Jun	0.7635	0.7635	-	0.7623

DEUTSCHE MARK (IMM)
DM125,000 $ per DM

	Latest	High	Low	Prev.
Dec	0.5360	0.5364	0.5352	0.5353
Mar	0.5396	0.5396	0.5396	0.5392
Jun	-	-	-	0.5434

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
Dec	91.22	91.23	91.19	91.25
Mar	91.27	91.27	91.23	91.29
Jun	91.08	91.08	91.05	91.09
Sep	90.84	90.85	90.81	90.86
Dec	90.65	90.65	90.62	90.66
Mar	90.66	90.66	90.60	90.66
Jun	90.59	90.59	90.54	90.59
Sep	90.51	90.51	90.48	90.52

STANDARD & POORS 500 INDEX
$500 times index

	Latest	High	Low	Prev.
Dec	270.60	272.35	269.80	271.90
Mar	273.00	274.60	272.40	274.30
Jun	275.10	277.00	275.10	276.70

EUROPEAN OPTIONS EXCHANGE

Series		Vol	Last	Vol	Last	Vol	Last	Stock
		Nov. 88		Feb. 89		May 89		
GOLD C	$400	108	11	10	22.50 A	-	-	$394.70
GOLD C	$420	25	4.50 A	424	12.50	231	21	$394.70
GOLD C	$460	-	-	138	4	-	-	$394.70
GOLD C	$480	-	-	25	2.50	-	-	$394.70
GOLD C	$500	-	-	298	1.10	2	12.40	$394.70
GOLD P	$390	36	8	21	10	55	17 B	$394.70
GOLD P	$400	22	10.80 B	1	15	5	27	$394.70
GOLD P	$420	8	24 B	185	25			
		Oct. 88		Nov. 88		Dec. 88		
EOE Index C	Fl. 220	25	17.50	-	-	-	-	Fl. 236.59
EOE Index C	Fl. 225	25	13	-	-	-	-	Fl. 236.59
EOE Index C	Fl. 235	331	9.50	4	8.50	-	-	Fl. 236.59
EOE Index C	Fl. 240	42	2.70	65	5.50	3	7.80	Fl. 236.59
EOE Index C	Fl. 250	19	0.30	7	2	-	-	Fl. 236.59
EOE Index P	Fl. 220	100	0.80	60	1.60	-	-	Fl. 236.59
EOE Index P	Fl. 225	74	1.20	55	3	-	-	Fl. 236.59
EOE Index P	Fl. 230	172	2.30	-	-	-	-	Fl. 236.59
EOE Index P	Fl. 235	19	3.50	4	6.60 B	-	-	Fl. 236.59
EOE Index P	Fl. 240	28	6	5	9	-	-	Fl. 236.59
		Nov. 88		Feb. 89		May 89		
OBL Index C	Fl. 100	1000	0.40	1000	0.55	-	-	Fl. 100.15
		Oct. 88		Nov. 88		Dec. 88		
$/Fl C	Fl. 200	-	-	-	-	17	12	Fl. 212.07
$/Fl C	Fl. 210	25	3.20	25	4.20	29	4.60 A	Fl. 212.07
$/Fl C	Fl. 215	8	0.80	25	1.80 A	20	2.50	Fl. 212.07
$/Fl P	Fl. 205	25	0.40	-	-	10	1.70	Fl. 212.07
$/Fl P	Fl. 215	-	-	100	5.50	10	6.40	Fl. 212.07
		Oct. 88		Jan. 89		Apr. 89		
ABN C	Fl. 45	89	0.20	120	1.60	4	2.60	Fl. 41.90
ABN P	Fl. 45	328	3.40	230	3.60	56	4.60 A	Fl. 41.90
AEGON P	Fl. 85	-	-	52	3.50	-	-	Fl. 85.90
AHOLD C	Fl. 80	70	3	-	-	-	-	Fl. 82.20
AHOLD P	Fl. 80	9	0.80	34	2.50	-	-	Fl. 82.20
AKZO C	Fl. 150	623	1.30	153	6	6	10	Fl. 144
AKZO P	Fl. 140	64	1.50	116	5.60	-	-	Fl. 144
AMEV C	Fl. 55	50	1.50	29	3.70	6	5.50	Fl. 54.90
AMEV P	Fl. 55	3	1.50	25	3 A	-	-	Fl. 54.90
AMRO C	Fl. 80	-	-	57	2	-	-	Fl. 73.70
BUHRMANN-T C	Fl. 55	27	6.80 A	17	2.60 A	-	-	Fl. 53.10
ELSEVIER C	Fl. 55	27	6.80 A	216	8.30	-	-	Fl. 61.50
ELSEVIER P	Fl. 45	51	0.10	-	-	-	-	Fl. 61.50
GIST-BROC. C	Fl. 40	320	0.50	57	2.20	10	3.20	Fl. 37.40
GIST-BROC. P	Fl. 30	25	0.10	-	-	-	-	Fl. 37.40
HEINEKEN C	Fl. 150	53	0.60	4	3.20	30	5.80	Fl. 137.20
HOOGOVENS C	Fl. 60	33	3.30	341	6.40	5	8	Fl. 62.20
HOOGOVENS P	Fl. 45	-	-	35	0.40	-	-	Fl. 62.20
KLM C	Fl. 35	105	1.30	169	2.90	7	4.40	Fl. 35.40
KLM P	Fl. 35	19	0.80	672	2.10	15	2.80	Fl. 35.40
KNP C	Fl. 160	45	11.20	100	17.50	-	-	Fl. 170
KNP P	Fl. 160	2	1.20	22	4.90	-	-	Fl. 170
NEDLLOYD C	Fl. 250	3	0.20	35	5	-	-	Fl. 221
NEDLLOYD P	Fl. 220	17	3.80	-	-	20	16	Fl. 221
NAT.NED. C	Fl. 65	255	1.20	12	3.40	5	5.20	Fl. 64
PHILIPS C	Fl. 35	118	0.40	109	1.40	64	2.10	Fl. 32.30
PHILIPS P	Fl. 35	67	2.80	157	3.90	24	5	Fl. 32.30
ROYAL DUTCH C	Fl. 220	446	5.30	79	11.50	6	16.50 A	Fl. 222.10
ROYAL DUTCH P	Fl. 220	685	2.40	258	5.70	8	7	Fl. 222.10
UNILEVER C	Fl. 110	192	5	45	8.80	9	11	Fl. 114.30
UNILEVER P	Fl. 120	111	6.80	67	9.20 B	22	10.50	Fl. 114.30
VAN OMMEREN C	Fl. 35	-	-	-	-	37	1.10	Fl. 30
VAN OMMEREN P	Fl. 35	-	-	-	-	30	5	Fl. 30
WESSANEN C	Fl. 80	55	0.90	33	2.60	-	-	Fl. 76.30

TOTAL VOLUME IN CONTRACTS : 21,070

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%
ABN Bank	12
Adam & Company	12
AAB - Allied Arab Bk	12
Allied Irish Bank	12
● Henry Ansbacher	12
ANZ Banking Group	12
Associates Cap Corp	12
Authority Bank	12
● B & C Merchant Bank	12
Banco de Bilbao	12
Bank Hapoalim	12
Bank Leumi (UK)	12
Bank Credit & Comm	12
Bank of Cyprus	12
Bank of Ireland	12
Bank of India	12
Bank of Scotland	12
Banque Belge Ltd	12
Barclays Bank	12
Benchmark Bank PLC	12
Berliner Bank AG	12
Brit Bk of Mid East	12
● Brown Shipley	12
Business Mtge Tst	12½
CL Bank Nederland	12
Central Capital	12
● Charterhouse Bank	12
Citibank NA	12
City Merchants Bank	12
Clydesdale Bank	12
Comm. Bk. N. East	12
Co-operative Bank	*12
Coutts & Co	12
Cyprus Popular Bk	12
Dunbar Bank PLC	12
Duncan Lawrie	12
Equatorial Bank plc	12
Exeter Trust Ltd	12½
Financial & Gen. Bank	12
First National Bank Plc.	13
● Robert Fleming & Co.	12
Robert Fraser & Ptnrs.	12½
Girobank	12
● Guinness Mahon	12
HFC Bank plc	12
● Hambros Bank	12
Heritable & Gen Inv Bnk	12
● Hill Samuel	§12
C. Hoare & Co.	12
Hongkong & Shangh	12
● Leopold Joseph & Sons	12
Lloyds Bank	12
Meghraj Bank Ltd	12
McDonnell Douglas Bnk	12.5
Midland Bank	12
Mount Banking Corp.	12
Nat Bk. of Kuwait	12
NatWestminster	12
Northern Bank Ltd	12
Norwich Gen. Trust	12
PRIVATbanken Limited	12
Provincial Bank PLC	13
R. Raphael & Sons	12
Roxburghe G'rantee	12½
Royal Bk of Scotland	12
Royal Trust Bank	12
● Smith & Williamson Secs.	12
Standard Chartered	12
TSB	12
UDT Mortgage Exp	‡12.75
United Bk of Kuwait	12
United Mizrahi Bank	12
Unity Trust Bank Plc	12
Western Trust	12
Westpac Bank Corp.	12
Whiteaway Laidlaw	12½
Yorkshire Bank	12

● Members of British Merchant Banking & Securities Houses Association. * 7 day deposits 4.38% Savewise 7.16%. Top Tier-£10,000+ instant access 9.0% ‡ Mortgage base rate. § Demand deposit 7%. Mortgage 12.375% - 12.75%

MONEY MARKETS

Further fall in rates

THE DOWNWARD trend in interest rates continued on the London money market yesterday, following a smaller than expected UK trade deficit in August.

Relief in the market at the size of the deficit was indicated in the fall in three-month interbank to 12-11⅞ p.c. from 12⅛-12 p.c.

Dealers suggested that the current level of 12 p.c. base rates is likely to hold in the short term. There seems to be little prospect of an early cut in rates, but also no immediate fear of a rise to 13 p.c.

UK clearing bank base lending rate 12 per cent from August 25 & 26

Mr Nigel Lawson, Chancellor of the Exchequer, speaking in West Berlin, said it would be wrong to place too much weight on one month's trade figures. He added that there had been an appropriate reaction to the tightening of credit policy over the summer, but this would take some time to have an effect.

The Bank of England initially forecast a money market shortage of £200m, but revised this to £100m at noon, and to a flat position in the afternoon.

The authorities did not operate in the market.

A take-up of Treasury bills and repayment of late assistance drained £64m, with Exchequer transactions absorbing £190m. These factors were offset by a fall in the note circulation adding £65m to liquidity.

In New York the Federal Reserve added $1.5bn to the banking system, via customer repurchase agreements, when Federal funds were standing at 8¾ p.c. This was above the 8⅛ p.c. level, which the market believes to be the Feds target, and was aimed at offsetting high, and rising Treasury balances at the Fed, which are draining reserves from the banking system.

In Frankfurt call money was unchanged at 4.75 p.c., but credit conditions are expected to tighten today, as about DM6bn drains from the money market because of pension payments. This money is expected to flow back into the market within two days.

Liquidity has also been reduced by tax payments this month, and by Bundesbank intervention to support the D-Mark, but this has been offset by the supply of funds from state-owned banks, via the Bundesbank.

In Brussels the Belgian National Bank cut the interest rate on three-month Treasury certificates by 0.10 p.c. to 7.35 p.c. The two-month rate was reduced by 0.05 p.c. to 7.20 p.c., but the one-month rate was unchanged at 7.15 p.c.

FT LONDON INTERBANK FIXING

(11.00 a.m. Sept.27) 3 months US dollars		6 months US Dollars	
bid 8⅞	offer 8⅞	bid 8⅞	offer 8⅞

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	10
Broker loan rate	9¾-½
Fed.funds	8⅜-⅞
Fed. funds at intervention	8¾

Treasury Bills and Bonds

One month	7.09	Three year	8.63
Two month	7.26	Four year	8.72
Three month	7.51	Five year	8.77
Six month	7.92	Seven year	8.90
One year	8.19	10-year	9.01
Two year	8.55	30-year	9.09

Sept.27	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.70-4.80	4.70-4.85	4.75-4.90	4.80-4.95	5.05-5.20	5.00
Paris	7⅛-7½	7⅛-7⅞	7⅝-7¾	7⅞-7⅞	8-8⅛	7.00
Zurich	1⅞-1⅞	3-3¼	-	3¼-3⅞	-	-
Amsterdam	5.25-5.0	5.37-5.50	-	5.50-5.60	-	-
Tokyo	4.09375	4.46875	-	-	-	-
Milan	10⅞-10⅞	10½-11	-	11¼-11⅞	-	-
Brussels	6.35	7⅛-7⅞	-	7⅛-7⅞	-	-
Dublin	7⅛-7⅞	7¼-7½	7⅛-7⅞	7⅞-7⅞	7⅞-8	-

LONDON MONEY RATES

Sept.27	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	12	11¼	11⅞	12⅛	12¼	12⅜
Interbank Bid	10	10⅞	11½	11⅞	11⅞	11¼
Sterling CDs.	-	-	11⅞	11⅞	11⅞	11½
Local Authority Deps.	11	10⅞	11½	12	12	12
Local Authority Bonds	-	-	11⅞	12⅛	12½	12½
Discount Mkt Depts.	11½	10⅞	11¼	11⅞	-	-
Company Deposits	-	-	11⅝	12⅛	12¼	12¼
Finance House Deposits	-	-	11⅞	11⅞	11⅞	11¾
Treasury Bills (Buy)	-	-	11½	11⅞	-	-
Bank Bills (Buy)	-	-	11⅞	11⅞	11⅞	-
Fine Trade Bills (Buy)	-	-	12⅛	12⅞	12⅛	-
Dollar CDs	-	-	8.25-8.20	8.30-8.25	8.60-8.55	8.80-8.75
SDR Linked Dep Offer	-	-	7⅛	7⅞	7⅞	7⅞
SDR Linked Dep Bid	-	-	7	7⅛	7⅞	7⅞
ECU Linked Dep Offer	-	-	7⅝	7⅞	7⅞	7⅞
ECU Linked Dep Bid	-	-	7½	7⅞	7⅞	7⅞

Treasury Bills (sell); one-month 11⅜ per cent; three months 11⅞ per cent; Bank Bills (sell): one-month 11⅞ per cent; three months 11⅞ per cent; Treasury Bills; Average tender rate of discount 11.6039 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day Aug.31, 1988. Agreed rates for period September.26,1988 to October.25, 1988, Scheme I: 12.27 p.c., Schemes II & III: 12.72 p.c. Reference rate for period July.30,1988 to August.31, 1988, Scheme IV&V: 11.364 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11 from September 1, 1988: Bank Deposit Rates for sums at seven days notice 3.75 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7½ per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 9½ per cent; nine-twelve months 9½ per cent; Under £100,000 7 per cent from July.5,1988. Deposits withdrawn for cash 5 per cent.

طبقاً من الأصل

LONDON STOCK EXCHANGE

Pleasant surprise from trade figures

THE AUGUST trade figures caught some London market-makers on the wrong foot yesterday, and a somewhat technical rally sent equities soaring above the FT-SE Index 1800 hurdle *for the first time since* August 24. The investment institutions were slow to follow; however, and prices closed well below their best levels.

The August deficit of £1.3bn on current account, and £1.8bn on visible trade, was lower than most City predictions and prompted a rapid turnround in the equity sector. The about turn was all the more dramatic because two leading market-makers, alarmed to hear that Mr Nigel Lawson, the UK Chancellor of the Exchequer, planned a statement on the trade figures, marked stocks down sharply in early trading, sending the FT-SE Index down by 13 points in front of the announcement. They sold out of consumer stocks which are obviously vulnerable to interest rate worries.

Account Dealing Dates		
*First Dealings:		
Sep 19	Oct 3	Oct 17
Option Declarations:		
Sep 29	Oct 13	Oct 27
Last Dealings:		
Sep 30	Oct 14	Oct 28
Account Day:		
Oct 10	Oct 24	Nov 7

*New time dealings may take place from 9.00 am two business days earlier

However, these positions were rapidly reversed as the trade statistics, together with a calming statement from Mr Lawson, sent marketmakers scrambling to buy back the stock sold earlier. *After a brief* pause, the advance was resumed and with some buying from the institutions, the FT-SE was a net 20 points up before the pace slackened and profit-takers moved in.

At the close, the FT-SE Index was 15.3 points up at 1808. Seaq turnover at 461.5m, taking in both retail and inter-market-maker business, compared with 299.6m on Monday.

As the dust died down, equity market analysts were cautious in their assessment of the trade deficit, which remains the second largest monthly figure on record. While the improvement in the August figures may support *hopes that domestic interest* rates have peaked, "the institutions will still have to be convinced on this point", according to Robert Fleming Securities.

Some lifting of interest rate tensions was reflected in selective buying of consumer stocks. Bass, regarded by analysts as the brewer most clearly identified with the fortunes of domestic interest rates and consumer trends, advanced smartly. But retail stores were restrained when concerns over competition were borne out by disappointing interim figures from Next.

Firmness in the pound discouraged major international *stocks where Glaxo slipped* back as profits were taken after last week's gain in the share price.

The market's concern with the trade figures did not entirely overshadow the takeover speculation which has featured equities in recent sessions. Improvement among life assurance stocks was led by Sun Life ahead of tomorrow's shareholder vote on the proposed link-up with UAP of France.

FINANCIAL TIMES STOCK INDICES

	Sep 27	Sep 26	Sep 23	Sep 22	Sep 21	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	87.76	87.30	87.16	86.97	87.01	85.51	91.43 (18/4)	86.20 (2/9)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	96.36	96.10	96.21	96.00	96.00	91.76	98.67 (25/5)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1459.1	1446.5	1448.8	1440.7	1443.8	1849.8	1514.7 (8/8)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	188.2	164.0	164.6	162.7	165.2	456.9	312.5 (7/1)	162.7 (22/9)	734.7 (15/2/83)	43.5 (26/10/71)

Ord. Dl. Yield	4.75	4.78	4.77	4.79	4.78	3.17
Earning Yld %(full)	11.97	12.05	11.98	12.03	12.02	7.75
P/E Ratio(Net)(☆)	10.12	10.05	10.12	10.08	10.09	15.80
SEAQ Bargains(5pm)	22,740	19,578	20,372	20,886	21,505	37,458
Equity Turnover(£m)†	-	735.56	904.57	1059.89	1153.30	2134.61
Equity Bargains†	-	20,913	20,696	22,240	22,133	44,046
Shares Traded (ml)†	-	271.7	305.7	353.0	356.3	731.7

Ordinary Share Index, Hourly changes

Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1442.7	1437.8	1434.9	1444.6	1457.3	1458.9	1450.6	1459.2

DAY'S HIGH 1463.8 DAY'S LOW 1434.5

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974, ☆Nil 10.04 †Excluding intra-market business.

S.E. ACTIVITY

Indices	Sep 26	Sep 23
Gilt Edged Bargains	97.7	90.9
Equity Bargains	135.5	134.1
Equity Value	1486.8	1828.4
5-Day average		
Gilt Edged Bargains	90.6	87.6
Equity Bargains	134.5	132.4
Equity Value	1851.0	1856.4

London Report and latest Share Index: Tel. 0898 123001

Sell off on Next interim

Retailing group Next were one of the day's handful of poor performers with the shares plunging 17 to 182p in the wake of acutely disappointing interim figures. Turnover in Next expanded rapidly with numerous sizeable lumps of stock sold throughout the day.

Half-time profits came out at £30.9m, up 2.3 per cent on last times £30.2m, and were hit by sharply increased capital spending, higher interest charges and exceptionally by a £4.2m provision against a convertible loan stock redemption.

"There was little or no evidence of any support for the shares after the figures came out" said one trader. Analysts were busy cutting their full-year forecasts with most going well below the £100m pre-tax figure.

Lonrho busy again

Lonrho shares went through the system in sizeable numbers again – volume totalled 8.6m – but most of the deals were at declining prices and the close was 8 lower at 337p. The speculation aroused by the presence of a pedatory investor, which in turn has prompted the possibility of a management buy-out and asset sales, was more muted. But marketmakers still detected evidence of a sizeable buyer, despite the return to more orderly trading.

The inter-dealer broker (IDB) screens recorded several large transactions and eventually some 2m shares were crossed, passing to one source. It was questionable whether the stock went to the Mr Asher Edelman, the US corporate raider who currently holds 4.75 per cent of Lonrho.

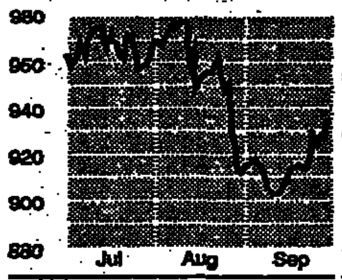
Lex UK hopes

Lex Service shares have encountered sticky going since piercing the 400p barrier, in celebration of last month's approval of its plans to penetrate the US car retailing market. Worries about prospects for the UK motor industry next year have more recently taken a toll, causing Lex to react quite sharply to around 355p. But over the past two sessions signs have emerged that the shares are beginning to stage a revival.

Kleinwort Grieveson is largely responsible for promoting the renewed buying interest. The research team of Francis Brook and Gavin Launder has assessed the record UK car sales in August and decided to raise its estimate of Lex annual profits by £5m to £73m. The increase is attributed entirely to the automotive businesses led by Volvo Concessionaires, the sole licensed importer of Volvos into the UK.

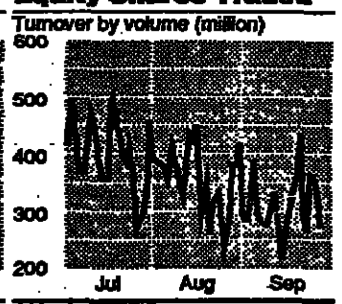
They also think Schweber in the US is becoming an increasingly valuable asset, placing it on a minimum valuation of £200m, and conclude a strong recommendation with: "The market is far too concerned about the outlook for UK motor industry and the stock is heavily undervalued". At yesterday's close, Lex was 3 higher at 366p.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)



Sun supporters

Sun Life remained the focus of attention in the life sector. The shares spurted 23 to 1023p after it was announced that Transatlantic Holding had lifted its stake in Sun Life to 28.42 per cent.

A fresh bout of buying interest yesterday was thought by dealers to have represented the Transatlantic camp buying even more stock and taking their stake to around 29.5 per cent. It was thought that Transatlantic was aiming at maintaining their holding in the event of shareholders approving Sun Life's proposed rights issue and share swap with UAP of France. The egm to approve the two deals is scheduled for tomorrow.

Japanese Gas

British Gas attracted a much higher than usual turnover of 11m shares with two securities houses, Kleinwort Grieveson and Phillips and Drew said to have been keen supporters of the stock.

The listing of British Gas shares on the Tokyo stock exchange is scheduled for tomorrow. Gas shares, under pressure in the past few weeks and near to their lowest levels this year, moved up strongly and closed a net 4 higher at 170½p.

The oil and gas sector, apart from British Gas, moved erratically as crude oil prices fell below the $13 a barrel mark amid speculation that Saudi Arabia is offering further discounts to its customers.

Turnover in BP, depressed over the last few weeks, picked up following a "buy" recommendation issued by the oil research team at BZW. The old settled firmer at 248p on turnover of 2.3m while the new hardened to 147p on turnover of 3.4m.

BZW says BP "offers a safe prospective yield of 7.3 per cent, even higher than that on three of the four clearing banks".

"We believe that it is now set to move back towards the yield parity with Shell seen at the start of this year, reversing much of the 8 per cent underperformance against the FT All Share since news of the MMC inquiry into the KIO stake. The imminent announcement of the recommendations could be the trigger for this to occur".

The BZW team re-iterated its stance that the Secretary of State's recommendations "are highly unlikely to lead to a disorderly dumping of stock."

Ultramar, however, settled 4 up at 239p and the "new" 5 up at 39½p, with the market beginning to reflect speculation that further stake-building – perhaps other than by Sir Ron Brierley who controls a 14.1 per cent stake – could be underway. Turnover in the new totalled 4.2m shares.

Bass enjoyed strong buying support before and after the *UK trade returns. Considered* one of the classic domestic consumer issues, the stock is becoming increasingly popular with Brewery sector analysts. Phillips & Drew and BZW are the two latest houses to publicise the group's attractions. The former say it is overdue a re-rating, being the only major to underperform this year, while BZW is equally positive with its approach. Turnover expanded to 2m shares, an unusually high mark, as Bass jumped 19 to 775p.

Other sector leaders were overshadowed, being able to make small improvements only.

British Aerospace continued to trade briskly amid hopes of a large Malaysian arms contract. Volume amounted to some 3m with the shares closing 8 to the good at 482p for a two-day rise of 15. British Airways made fresh headway, closing 5 to higher at 163p in turnover of 1.9m, while activity expanded in BTR (3.3m) which ended a similar amount higher at 293½p.

Buyers predominated in Pilkington, the St. Helens based glass manufacturer, in the wake of yesterday's institutional visit to the company arranged by SCBI Savory Milln. The Pilkington share price closed 5 better at 207p in turnover of some 2m. Rank Organisation, up 15 at 690p, continued its recent recovery movement, but volume was relatively small. Still reflecting the preliminary figures and proposed share split, Parker Knoll A jumped 35 further to 905p.

The appalling figures from Next brought a flurry of selling in other stores, notably Burton which dropped 5¼ to 189½p, and Storehouse which gave up 2 to 184p.

But Ward White, were an exception and rose strongly amid market whispers that a takeover bid is in the offing; at the close Ward White were 10 higher at 296p.

Sears were the subject of extremely heavy activity in the shares(7.4m traded) and the traded options market; sold down to 128p early on they subsequently rallied to settle a shade harder at 132p.

Building shares followed the general trend with most quotations rallying from a dull start. BPB illustrated the movement recovering from a low point of the day of around 236p in a good volume of trade (some 3.2m) to close a shade better on balance at 245p. RMC were noteworthy for a rise of 13 at 479p; commenting on the company, SBCI Savory Milln's analysts believe that the management of RMC will continue to make the most of cash flow and could produce the best earnings growth of all the major materials companies over the next two or three years. Taylor Woodrow, where *P&O hold a stake of around 10* per cent, drifted back to 578p before recovering to close only *a few pence off on balance at* 584p.

English China Clays closed a shade better at 492p, after having been up to 495p at one stage; the company announced yesterday that following informal *inquiries into china clay* supplies, the Office of Fair Trading has decided that it would not at this time be justified in recommending a reference to the Monopolies Commission.

Engineers were featured by James Neill which raced ahead to close 30 higher at 231p as BM Group revealed a 4.87 per cent holding in the company. Ash and Lacy, still responding to the interim figures, improved 8 further to 723p.

Mecca Leisure made rapid progress and moved up 6 to 174p prior to news that it spoke for 9.3 per cent of the ordinary shares of Pleasurama and had extended its offer until October 11. Pleasurama held at 213p, despite market whispers that a counter bid for the latter could be imminent.

Roy Owens, leisure analyst at Kitcat and Aitken, the stockbrokers, described the Mecca offer document as "very strong" and said it contained "many points which Pleasurama would need to address itself to, presumably in the defence document which has to be produced, with a profits forecast, by the end of the week.

Another speculative sortie swept Lucas Industries up to 581p before the shares closed 11 higher on balance at 576p while Jaguar recovered 6 to 245p.

Property shares staged a good revival as fears of higher interest rates faded. Business in the leaders was quite brisk, with Land Securities (1.5m) improving 7½ to 555½p and MEPC (1.4m) 9½ to 537½p. Good interim figures left London and Metropolitan 5 higher at 160p.

Cambrian & General, renowned for the Ivan Boesky connection, continued higher on reports of important developments this week in the lawsuits against the fallen Wall Street investor.

Food stocks were prominent among the sectors marked down by marketmakers ahead of the trade figures, but shared in the general upswing after the announcement of a reduced deficit for August. Tate & Lyle steadied at 807p as the market absorbed its US purchase.

In the hotels sector, Trusthouse Forte edged up 1½ to 261½p. Today brings expiry of the September traded options contracts, and a substantial open position exists in the Trusthouse 260 call series, giving any market makers holding short positions in it reason to hope that the shares close at or below 260p tonight.

International stocks bounced back after a nervous start. Intra-market trade and genuine investment activity contributed to a noticeably expansion in volume. BOC encountered some good institutional demand and featured with a gain of 10½ at 420½p. Beecham settled a few pence firmer at 463p in turnover of some 4.5m, while ICI, down to 1000p at one stage, recovered smartly as buyers quickly moved in to take the price up to a close of 1013p, a net gain of 6. Wellcome, out of favour recently, came to life with a flourish, ending 13½ dearer at 501p as Nomura, the securities house, acted on behalf of two-large buyers.

Business in traded options showed a substantial improvement with 32,396 calls and 16,677 puts giving an overall total of 49,073 contracts. The FT-SE index comprised 5,354 calls and 7,023 puts. Sears saw 4,962 calls taken out and only 489 puts. while Trusthouse Forte attracted 3,431 calls and 593 puts.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 29

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm

Stock	Volume 000's	Closing Price	Day's change
ASDA Group	2,300	141	
Abbey Life	951	315	+1
Allied-Lyons	3,900	448	-1
Amstrad	4,000	212	+9
Argyll Group	1,000	171½	
Ass. Brit. Foods	514	305	+2
BAA	3,000	256	-1
BAT	2,000	437	+4
BET	556	225	
BICC	[illegible]	[illegible]	[illegible]
BOC	[illegible]	[illegible]	[illegible]
BPB Industries	[illegible]	[illegible]	[illegible]
BTR	[illegible]	[illegible]	[illegible]
Barclays	[illegible]	[illegible]	[illegible]
Bass	[illegible]	[illegible]	[illegible]
Beecham	4,500	463	+2
Blue Arrow	2,000	87	
Blue Circle	1,500	439	
Boots	3,200	210	
British Airways	1,900	163	+5
Brit. Aerospace	3,000	482	+8
Brit & Comm.	1,800	219	
British Gas	11,000	170	+3½
British Land	209	324	+3
BP	2,300	248	+1
British Telecom	4,000	242	+1½
Burmah Oil	170	525	+2
Burton	3,800	189½	-5¼
Cable & Wireless	5,000	385	+6
Cadbury Schweppes	2,400	373	
Coats Viyella	4,500	171	+1
Commercial Union	852	339	+4

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (96).

BRITISH FUNDS (4) Conv. 3½pc. 1981 Alt., Treas. 2pc. I.L. 1990, Treas. 2½pc. I.L. 2003, Treas. 2½pc. I.L. 2011, AMERICANS (4) CPC Int., Cons. Freight, TW Services, Tenneco, BREWERS (1) Merrydown, BUILDINGS (1) Lafarge, CHEMICALS (1) Schering, ELECTRICALS (2) Pifco Hldgs., Pifco Hldgs. A, ENGINEERING (5) ASW Hldgs., Cohen A, Edbro, Neill (James), Ransomes Sims, INDUSTRIALS (7) AGA, Avdel, Halma, Hornby Grp., Hughes (H.T.), Macfarlane Grp., Parker Knoll A, INSURANCE (1) Allianz, PROPERTY (1) Mountview Estates, SOUTH AFRICANS (1) Abercom, TRUSTS (5) Brunner Inv., Cambrian & General, Gartmore Euro, Tor Inv. Inc., Baillica Hldgs., PLANTATIONS (1) Williamson.

NEW LOWS (37).

CANADIANS (2) Augmitto Expln., Breakwater, BANKS (1) Union Discount, BUILDINGS (2) Epwin Grp., Needler Grp., CHEMICALS (1) BTP, STORES (2) Next, Tie Rack, ELECTRICALS (2) Coastal, Ross, FOODS (3) ASDA Grp., Acatos & Hutcheson, Morrison (Wm.) 5¼pc. Rd. Pf., INDUSTRIALS (5) Coated Electrodes, Hewitt (J.), Kenyon Securities, Laidlaw Thomson, Tribble Harris, INSURANCE (2) London Utd., Sturge Hldgs., PAPERS (2) City of Lon. PR, Monotype Corp., PROPERTY (2) Connells Estate Agents, Waterglade 7¼pc. Prf., TEXTILES (1) Stoddard, TRUSTS (1) Yeoman Inc., OILS (1) Caspen Oil, OVERSEAS TRADERS (1) Ocean Wilsons, MINES (8) Durban Deep, Elandsrand Gold, Harmony, Loraine, Enterprise Gold, Glencar Expln., Harvie Gold Mines, McFinley Red Lake, THIRD MARKET (1) Caldwell Instr.

APPOINTMENTS

Senior posts at Pickfords Travel Group

■ Mr Richard Lovell has been appointed group managing director of PICKFORDS TRAVEL GROUP, a division of the National Freight Consortium, from October 3. He was managing director of the business travel division. His successor is Mr Nigel Robinson, who was planning and development director of the Pickfords Travel Group.

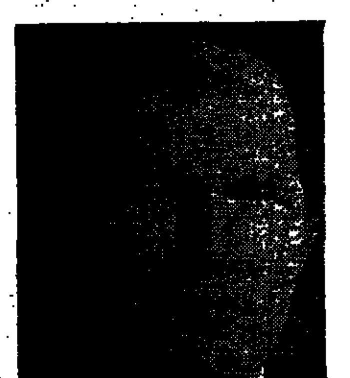
■ Mr David Andersen has been appointed joint managing director of HIGHWAY VEHICLE LEASING. He was managing director of John M. Millar.

■ BSI BANCA DELLA SVIZZERA ITALIANA has appointed Mr Felix Peret manager, private banking, of its London branch.

■ Mr Peter Simms has been made managing director of ADAMSON MODULAR SYSTEMS, the container manufacturing division of Tiphook. He was managing director of English Drilling Equipment Co.

■ EDINBURGH FUND MANAGERS has appointed Mr Keith Johnston and Mr Michael Balfour assistant directors.

■ At ROMAG HOLDINGS Mr Colin Baker has become managing director of its subsidiary, Romag Security Laminators.



Mr David Connell, managing director of the international division of United Distillers Group, the Guinness subsidiary, has been elected chairman of THE SCOTCH WHISKY ASSOCIATION. He succeeds Mr John Macphail, who is retiring after five years as chairman.

■ WATES CONSTRUCTION (LONDON) has appointed Mr Malcolm Fairclough as marketing director. He was marketing manager.

■ Mr William Leach has been made chief executive of GROSVENOR TRUST COMPANY, a wholly-owned subsidiary of Anglo Manx Bank. He was resident director of *Midland Bank Trust* Corporation (Isle of Man).

■ Mr Derek Kingston has joined the board of FELIXSTOWE DOCK AND RAILWAY COMPANY as personnel director. He was chief of industrial relations and personnel.

■ CABANA, supplier of soft drinks dispensers, has appointed Mr David Edwards as commercial director. He remains managing director of Cabana Distributorship which he sold last year to Cabana Soft Drinks, a subsidiary of J.N. Nichols (Vimto).

■ At GREAT LAKES REINSURANCE (UK) Mr Peter Bond, Mr Leslie Hammick, Mr David Price and Mr Stuart Claydon have become directors. Mr Claydon is also made managing director.

■ Mr Gerry Ward has joined *BRITANNIC TELECOM CO* as marketing director. He was formerly UK market development director at Northern Telecom.

■ Mr Bob Lister has been appointed financial director of LEVEYS, the home decor retailers. He was financial controller.

■ Mr Duncan Davidson has been appointed a director of the SCOTTISH INVESTMENT TRUST. He is chairman and chief executive of Persimmon which he formed in 1972.

■ *Mr Michael Gwilt* has been appointed sales director by INTERLEASING (UK), a contract hire and fleet management company. He was national new business manager.

■ Dr Alan Folwell, formerly managing director of Inco *Engineered Products, is* appointed managing director in charge of the plastics division of ARTHUR LEE AND SONS.

■ Mr Michael Richardson will become a director of ELECO HOLDINGS on October 3. He was managing director of the Anglian division of Fairclough Building.

■ Mr Nigel Shepherd has been appointed marketing director of SODASTREAM, part of Cadbury Schweppes. He joins from Lyons Tetley, where he held a number of marketing posts.

■ TELINDUS UK has appointed Mr John Lavin as managing director. He was vice president and chief executive of Infotron Systems International.

■ RENTOKIL has restructured the board of its *subsidiaryMetropolitan Office* Machines as follows: Mr C.M. Thompson, chairman, Mr R.F. Payne, deputy chairman, Mr D. O'Connor, managing director, Mr W.J. Fenwick, Mr D.W. Allen, and Mr G.V. Valler directors.

LONDON SHARE SERVICE

AMERICANS—Contd

1988 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
27⅛	22⅞	Texas Instr. $1	24⅞xd	−⅛	72c	−	1.7
69	43¼	Time Inc. $1	63⅞xd	−1⅜	$1.00	−	0.9
21½	15⅞	Transamerica $1	21⅛xd	−⅛	$1.84	−	5.1
20⅛	14½	TRINOVA Corp.	16⅞xd	.....	64c	−	2.3
19	15⅛	USX $1	16½	−⅛	$1.20	−	4.3
23½	17⅝	Utd. Technologies	23½xd	.....	$1.60	−	4.0
34	26¾	US West‖	34	.....	$3.52	−	6.1
24⅝	16⅞	Waste Management $1	23⅞xd	−⅛	48c	−	1.2
16⅞	12⅞	Whirlpool $1	15¼	−⅛	$1.10	−	4.2
32⅛	18¼	♥Woolworth $3½	31⅞	−¼	$1.64	−	3.0

CANADIANS

1988 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
309p	173p	ABM Gold Corp‖	288p	+11	−	−	−
32p	11p	♥Abbot Energy Corp	13¼p	.....	−	−	−
14¼	916p	♥Amer. Barrick Res.	10	+⅛	−	−	−
10p	3p	American Lightwave	5p	+½	−	−	−
47p	12p	♥Armeno	12¼p	+¼	−	−	−
76p	41½p	Augmitto Expln.	41½p	−1½	−	−	−
14¼	10⅝	Bk. Montreal‖	14	+¼	$2.00	−	6.9
740p	514p	Bk. Nova Scot.‖	725p	.....	76c	−	5.1
18¼	15¼	BCE‖	17⅞	.....	$2.44	−	6.6
716p	591p	♥Bow Valley‖	645p	.....	♦40c	−	3.0
13⅛	10½	♥Brascan‖	12⅝	−⅛	88c	−	3.4
328p	184p	♥Breakwater Res	184p	−8	10c	−	2.6
12	801p	Can Imp Bank‖	11⅝	.....	$1.16	−	4.9
11½	841p	Can. Pacific‖	10⅝	.....	60c	−	2.7
41½	38½	Do. 4pc Deb £100	38½	.....	4%	−	10.4
515p	362p	Central Capital "A"‖	435p	−12	−	−	−
485p	378p	♥Corona Corp.	404p	+17	−	−	−
885p	288p	Cons. TVX Min.	325p	.....	−	−	−
371p	76p	Danbus Res.	295p	.....	−	−	−
686p	430p	Derlan Inds	594p	−2	11.75c	−	1.0
14¼	947p	♥Echo Bay Mines	993p	+4	$0.07	−	0.4
40p	14p	Energex Minerals	15⅝p	+1⅝	−	−	−
125p	83p	Euro-Asia Capital Ltd.	93p	.....	−	−	−
386p	222p	♥Galactic Resources	301p	.....	−	−	−
125p	86p	♥Geodome Res.	86p	.....	−	−	−
394p	164p	Granges Expln‖	189p	−3	−	−	−
17p	7p	♥Gt Pacific Res.	7¼p	+¼	−	−	−
903p	652p	♥Gulf Canada‖	767p	−14	52c	−	3.3
12⅛	816p	♥Hawker Sid Can‖	10¼	.....	$1.08	−	4.9
590p	344p	Henlys Group	481p	−10	−	−	−
957p	785p	♥Hudson's Bay‖	922p	.....	60c	−	3.2
28	22⅞	♥Imperial Oil‖	25⅛	.....	$1.80	−	3.5
20⅞	10⅛	Inco‖	16⅝	+⅛	US$0.80	−	2.8
718p	462p	♥Inland Nat. Gas $1	588p	−2	60c	−	5.0
250p	138p	Madeleine Mines	142p	+4	−	−	−
207p	126p	♥Muscocho Expln.	191p	+2	−	−	−
187p	65p	♥Nu! Business Syst.‖	74p	−6	−	−	−
245p	110p	♥Nevada Goldfields	162p	−10	−	−	−
12	787p	♥Rio Algom	10½	.....	$1.30	−	6.0
16⅞	11½	Royal Bk. Can.‖	16⅞	.....	$2.08	−	6.0
34⅛	26⅝	Seagram‖	32⅛	−¼	US$1.20	−	2.2
361p	137p	♥Sonora Gold Corp‖	137p	−5	−	−	−
121p	18p	Spiral Eng	49p	.....	−	−	−
150p	35p	Tam Pure Tech. Corp.‖	124p	−4	−	−	−
17½	11⅛	Toronto-Dom. Bk.‖	17½	+⅛	$1.12	−	3.1
684p	566p	♥Trans Can Pipe	639p	−6	68c	−	5.2
205p	127p	Varity Corp‖	165p	−2	B−	−	−

BANKS, HP & LEASING

1988 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
*253	124	ANZ $A1	247	−1	†Q21c	3.1	4.1	7.8
*261	180	Allied Irish	240xd	.....	†Q72.9%	3.1	6.4	8.3
£13¼	£10⅞	Algemene Fl.10	£11½	−⅛	Q27%	1.9	6.5	−
73	58	Anglo Irish	65	.....	Q19.69%	1.2	6.3	20.3
90	64	Ansbacher (H.) 1p	84	.....	2.0	−	3.2	−
£40½	£24⅝	Banco de Bilbao S.A.	£35⅜	.....	Q67.2%	3.1	4.6	6.9
£35⅝	£27⅛	Banco de Santander	£31¼	+¼	Q22%	2.4	1.7	24.5
*268	184	Bank Ireland Ir£1	236	.....	Q15.67%	3.3	5.6	7.3
£18½	£15	Bank Leumi	£18½	.....	−	−	−	−
[illegible]								

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LONDON SHARE SERVICE

LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

116	68	Seacon Hldgs .. .. y	95	..	21.0	–	1.4	–
15½	11	Sonic Tape 2½p .. y	11	..	–	–	–	14.4
27	18	Scats Hldgs 5p .. y	24	–1	–	–	–	♦
41½	2½	Swanyard Studios 1p y	3¼	..	–	–	–	♦
298	200	Takare ... ... y	271	..	b1.0	8.1	0.5	27.8
70	41	Theme Holdings	66	..	♦1.1	♦	2.3	♦
36	26	Tomorrows Leisure 20p y	28	..	–	–	–	♦
25	13½	Tullow Oil 10p .. y	18	...	–	–	–	–
135	110	UPL Group 10p. . y	110	....	L2.41	4.3	2.9	15.0
183	120	Unit Group. .. .. y	168	–2	5.0	♦	4.0	♦
125	85	Video Tape Rec 5p y	110	...	L2.3	2.3	2.8	15.8

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... y	70	.....
Craig & Rose £1. y	700	+10
Finlay Pkg 5p.... y	86	......
Holt (Jos) 25p.....y	£11½	+¼
Arnotts ... . y	400	+40
Carrol Inds ... .. y	158	.....
Gralton Grp.. .... y	128	......
Hall (R & H)....	165	....
Helton Hldgs.......y	56	......
Irish Ropes..........y	163	......

IRISH

Cap. 8½% Ln 1991	£98⅛	.....
9pc Cap Ln. 1996..	£100¼	.. ...
Fin. 13% 97/02...	£129	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp.	36
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	22
Burton Ord	21
Cadburys	32
Charter Cons	38
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	50
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	30
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	16
Polly Peck	38
Racal Elect	32
RHM	38
Rank Org Ord	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	60
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property	
Brit Land	30
Land Securities	52
MEPC	52
Peachey	30

Oils	
Brit. Gas	15
Brit Petroleum	24
Burmah Oil	50
Charterhall	3
LASMO	40
Premier	7½
Shell	95
Ultramar	26

Mines	
Cons Gold	95
Lonrho	20
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

COMMODITIES AND AGRICULTURE

Brazil and Colombia table coffee pact plan

By David Blackwell

THE INTERNATIONAL Coffee Organisation talks in London began yesterday to show the first signs of real progress as Brazil and Colombia, the two biggest producers, agreed on a proposal for the coming year's total export quota.

Their plan, which has put the two countries on the same path after their differences in the talks last week, calls for an initial total quota of 54m bags (60 kilograms each), rising to 58m bags if the price of coffee rises.

It represents a much more positive way of supporting the coffee market, which is faced with oversupply and low prices, said Mr Jorio Dauster, head of the Brazilian Coffee Institute (IBC). Last year the quota was set at 58m bags and gradually reduced to 51.5m as prices continued to decline.

Mr Dauster said he had seen no open opposition to the proposal at yesterday's meeting of producer countries. However, some producer countries said afterwards that they needed time to consider the plan.

The Brazil/Colombia plan has taken on board the consumer countries' demand for more top quality arabica coffees, which have been fetching high premiums over the robusta. The 54m-bag total quota would be increased by stages of 1m bags if prices began to climb over the 120 cents a lb defence price. The 1m bag increase would be assigned to arabicas if the differential between the ICO indicator price for the so-called other mild coffees and the robusta indicator was 25 per cent or more of the other mild indicator. A smaller difference between the prices would lead to a pro rata distribution of the increase between arabicas and robustas.

The price range to be defended, which is measured by the ICO 15-day composite indicator price, would remain unchanged at 120 to 140 cents a lb, Mr Dauster said. The latest indicator price is 113.33 cents a lb.

On the consumer side, the French have come up with a very similar plan. But the consumer countries have not agreed a common position. Some, including the US, want a very large initial quota so that they can immediately get hold of the coffees they want in quantity.

One consumer delegate said the Brazilian plan represented an attempt to address the problem of selectivity between milds and robustas, but the 54m bag initial quota was "very optimistic."

Many African producers who grow only robusta coffee are also not thought to be keen on a system which gives arabica producers the chance of selling more coffee.

However, now that Brazil and Colombia have agreed on a proposal which the other producers are not violently opposing, delegates have something to get their teeth into for the first time since the talks started on Monday last week.

"We are now entering the serious negotiation phase," said one analyst yesterday. "It's a very positive sign."

COFFEE prices surged on news of the Brazil/Colombia plan, with three-month robusta futures closing up £28 at £1,175 a tonne – the highest closing level since the beginning of March this year. The news encouraged trade as well as speculative buying, triggering stops at about £1,165 a tonne. A background factor was news that Brazil's main coffee growing areas were dry overnight. Brazilian traders said rain is needed to prevent damage to flowering for next year's crop.

Gorbachev seeks the key to farm revival

Quentin Peel on efforts to give Soviet agriculture a new lease of life

THE HIGH hopes of early summer for a bumper Soviet grain harvest have withered with the scorching temperatures of July and August, which brought drought to the south and the east.

Prospects for a crop falling short of last year's 211m tonnes will be a nasty setback for Mr Mikhail Gorbachev, the Soviet leader, who is facing an increasingly angry political backlash over the paucity of food supplies in the shops. On top of that, he can ill afford the foreign exchange needed to top up the country's food deficit from abroad, because the falling oil price has severely squeezed his traditional export earnings.

Superficially, a poorer grain crop may be interpreted as a blow to the reform plans being introduced by the Soviet leader. Yet in reality, those reforms have barely begun to be implemented.

What has happened is that the prospect of a major upheaval in agriculture has undoubtedly caused uncertainty both among the armies of bureaucrats who have traditionally administered Soviet agriculture, and among the collective farm workers it is intended to benefit.

For months, the Soviet press has been full of exhortations for state farms and collectives to switch to – or at least to encourage their workers to adopt – a so-called contract-lease system. On the face of it, this is nothing less than a reversal of the trend of the past 60 years, and a switch back to encouraging private enterprise and the family farm.

Yet if the direction of reform is clear, its implementation has barely begun to happen. Moreover there seems to be widespread confusion about what it means, and how far it should be allowed to erode the massive state farms and collectives so brutally established by Joseph Stalin in the 1930s.

The fact that the last two years have seen harvests topping 200m tonnes of grain, and the forecast for the present year by the US Department of Agriculture is still for 205m tonnes this time, has nothing to do with the new system.

"Last year's harvest was achieved mostly be sheer hard work," according to one Western analyst. "There were no real structural changes in Soviet agriculture, and the weather was not particularly good."

The only other factor was the application of so-called intensive technology to Soviet farming.

"Essentially that is simply what we would call better management," says Dr William Huth, US agricultural counsellor in Moscow. "It also means allowing more decision-making at farm level, providing more incentives and introducing some price reforms."

There were bonuses for delivery of grain above quota, increased prices for oilseeds, use of improved seed, better fertiliser, and simply more timely application of it.

The US Department of Agriculture – the closest observer of the Soviet agricultural scene – believes that the crop this year would have been well under 200m tonnes were it not for intensive technology.

But that is as far as it goes. The time has now come for far more radical reform, the Soviet leader says. That means contract leases and family leases.

When Mr Gorbachev toured the grim industrial towns of central Siberia this month, he left no doubt that the sorry state of Soviet agriculture, and the popular perception of deteriorating food supplies, were now the top priority items on his political agenda.

Mikhail Gorbachev: wary of wholesale solutions

"They have finally realised that agriculture is the key," the Western analyst said. "Gorbachev knows that it is no longer a matter of trying to persuade the industrial workers to try harder, if he does not produce the food."

The Soviet leader appears to be convinced that his drive to recreate the Soviet "farm" is the only answer. Workers on the giant collectives are being encouraged to band together – in co-operatives or in families – and lease their own plot of land.

Originally the idea was just to allow leases for five years at a time. Suddenly, since the Communist Party conference in June, the timescale has dramatically increased to 50 years: enough for two generations.

Some sort of contract leasing has been started on perhaps 10,000 of the 50,000 collective and state farms in the country. But they are hedged around with restrictions, and mostly fall well short of giving workers genuine independence.

At one state pig farm visited by Western experts, for example, they were told that each separate unit - the artificial insemination unit, the breeding unit, the fattening unit and so on – was an independent contract lease. How anyone could calculate their finances was not explained.

To take out a lease, the prospective farmer (the word in Russian is imported from English, because the concept never existed before) must negotiate the price with the collective, and agree on terms for hiring farm equipment, buying seed, fertiliser, animal feed and the like. It means that he remains entirely at the mercy of the collective manager, and whether the latter is happy to see his empire reduced by the new reform.

What the reform has done is produce an explosion of even more radical demands. Mr Anatoly Ananyev, who has written for years on rural themes, spelt out the logic in the newspaper Literaturnaya Gazeta: "More than half a century is sufficient for an experiment: these years of practice have shown that the system of organisation of our farms does not work. At its very foundation lies something so unproductive that no matter how much energy and effort the farmers and the state invest in it, results remain at the same low level.

"The door of reform has been opened slightly, but not enough to be satisfactory . . . There is no need to be afraid of private ownership."

He called for legal protection for the new leaseholders, a price for their land, and guarantees that they can resell it: in short, the creation of a Soviet farmer.

The only expert to whom Mr Gorbachev listened attentively when he met a group of scientists and top managers in Krasnoyarsk last week was Mr Arkady Veprev, director of the Nazarovsky state farm.

He argued that collectivisation had destroyed any sense of property, and taught the farm workers to rely on "hand-outs from above." The only solution was to go over wholesale to the family farm – but he implied that would mean dismantling the entire state farm system.

It was too much for Mr Gorbachev. The last time such wholesale solutions were proposed was in 1929, when Stalin launched his collectivisation, he said.

His problem is that gradual reform, and a sort of part-leasehold, part-collective system, is likely to create as much confusion as incentive.

The Soviet slogans of food self-sufficiency sound for all the world like the old discredited slogans of the European Community's Common Agricultural Policy.

When Lord Plumb, the former British farmers' leader and now president of the European Parliament, was in Moscow earlier in the month, he admitted that if Mr Gorbachev were successful "it will make the farmers squeal back home." It would, after all, close off a very useful outlet for EC surpluses.

But Lord Plumb did not appear to think the prospect was very imminent.

Farm Ministers to discuss Gatt stance

By David Buchan in Brussels

EC AGRICULTURE Ministers yesterday served notice that they will not leave it entirely to Foreign Ministers to shape the Community's negotiating position on the all-important farm trade issue at the December mid-term review of the current Gatt talks.

Mr Yannis Pottakis, the Greek agriculture minister chairing this week's EC farm council in Brussels, said he intended to schedule a full discussion by EC Farm Ministers of the Gatt talks this autumn. Mr John Macgregor, his UK counterpart, strongly welcomed this and stressed "the need for further Community action" to reduce farm trade subsidies, so that some accommodation could be reached with Gatt partners like the US, Japan and the so-called Cairns Group of major food producers.

However, the Farm Ministers found agreement far less easy on internal issues such as the Commission's proposals to extend milk quotas to comply with last spring's European Court ruling that more than 120,000 dairy farmers were unfairly deprived of quota rights in 1984. National officials are to continue negotiations on the issue.

The Commission has proposed that a Community quota of 500,000 tonnes be created, and added to the general Community reserve. But the rest of the milk that these farmers, returning to dairying, might produce is to come out of national quotas. Mr Macgregor voiced a general concern when he warned that any changes must not become "a windfall bonanza for those who have no real intention of going back into production," and that new quotas "must not reduce the quotas of existing producers."

The situation is further complicated by the fact that countries like Spain and Portugal were not in the Community in 1984, when milk quotas were introduced, and therefore their farmers stand to gain nothing from the quota extension, but would have to share the burden of a lower butter intervention price (suggested by the Commission to offset the cost of larger milk stocks).

Syrian wheat import tenders surprise traders

By Tony Walker in Damascus

SYRIA HAS called urgent tenders for the supply of 240,000 tonnes of wheat and 50,000 tonnes of flour.

The tenders have surprised observers in Damascus because it had been assumed Syria would be self-sufficient in wheat this year.

Good rains and a big harvest had, according to some estimates, pushed cereal production in 1988 to 3.5m tonnes, compared with an average of about 1.5m tonnes in the previous five years.

Based on an FAO wheat consumption estimate of half a kilogram per head per day, Syria should achieve self-sufficiency with production at about 2m tonnes.

Western officials in Damascus say that among possible reasons for the urgent call for wheat imports is that wastage, caused by poor storage facilities and transport difficulties, may have reached as much as 30 per cent.

Additional "leakage" of the Syrian crop is being attributed to smuggling across the borders into Lebanon and Turkey, where market prices are significantly higher. In Syria official prices to farmers are depressed.

The Syrians have also been exporting small quantities of hard wheat to Europe and importing less expensive varieties to earn foreign exchange. The country imported between 400,000 and 500,000 tonnes of wheat last year.

Judgement reserved in tin case

By Raymond Hughes, Law Courts Correspondent

BANK AND broker creditors of the insolvent International Tin Council are awaiting a High Court judge's decision on a move to stop the legal actions by which they are trying to recover their money.

After a three-week private hearing in the Commercial Court Mr Justice Evans has reserved judgment on applications by members of the ITC for the actions to be struck out.

Judgment is expected – almost certainly in public – by the end of October.

As in previous rounds of the litigation that has stemmed from the ITC's collapse, with debts estimated at around £900m, the council's members – the UK, 22 other states and the European Community – argued that the creditors had no legally sustainable cause of action against the UK and that the foreign states had sovereign immunity.

The creditors argue that the ITC's members are legally liable for its debts. The hearing was concerned with issues arising from damages claims based on allegations of negligence and misrepresentation.

The banks are Australia and New Zealand Banking Group (ANZ) claiming £4.6m, Kleinwort Benson (£8.47m), Arbuthnot Latham (£2.33m), Banque Indo-Suez (£1.17m), Hambros (£7.11m) and the TSB (£5.99m).

The broker creditors, claiming payment of tin contract debts, totalling £110m and unquantified damages are Amalgamated Metal Trading, Boustead Davis (Metal Brokers), Gerald Metals, Gill & Duffus, Henry Bath & Son, Holco Trading Company, Metallgesellschaft, Metdist and Mocatta Commercial.

One observer said the arguments had been evenly balanced, and the judge was reported to have shown some sympathy for the creditors.

The ITC's creditors have, however, become accustomed to winning the moral battles and losing the legal ones. In almost every case coming before the courts judges have expressed sympathy for the creditors' predicament and criticised the ITC and its members – but felt obliged to rule against the creditors.

Whatever Mr Justice Evans decides, this, like other parts of the tin litigation, seems certain to wend its way to the Court of Appeal and the House of Lords over the next couple of years.

WEEKLY METALS PRICES

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,190-2,220 (2,190-2,230).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 5.95-6.05 (6.00-6.05).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, ingots 6.80-7.10 (7.00-7.25), sticks 6.80-7.10 (7.00-7.25).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.15-7.35 (7.15-7.40).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 315-328 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.50-3.55 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 52-62 (same).

URANIUM: Nuexco exchange value, $ per lb, UO, 14.15 (same).

WORLD COMMODITIES PRICES

LONDON MARKETS

COCOA prices continued their downward slide yesterday, with the second position contract closing at a new 12¾-year low of £724 a tonne, down £6. Dealers blamed continued weak sentiment and the strength of sterling following news of the narrowing UK August trade deficit. On the LME zinc prices fell sharply, three-month metal shedding $44 to close at $1,222.50 a tonne. Dealers said sentiment was depressed by the recent failure to break the $1,300 to $1,340 range. But the downside should be restricted by support at $1,200 a tonne, they said, and prices could soon begin to recover, given the metal's sound fundamentals. Aluminium prices also continued down. Dealers said the sharp recent rise in stocks had undermined sentiment. However, three-month high-grade metal found some intermediate support at the day's low of $2,150 a tonne.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$10.85-0.90z	-0.90
Brent Blend	$12.62-2.70q	-0.605
W.T.I. (1 pm est)	$13.85-3.80z	-0.50
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$171-174	-1
Gas Oil	$115-116	-3.5
Heavy Fuel Oil	$59-60	-2
Naphtha	$129-131	-2
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$396.0	+⅝
Silver (per troy oz)♣	615c	-3
Platinum (per troy oz)	$489.0	+2.0
Palladium (per troy oz)	$116.35	+0.85
Aluminium (free market)	$2185	-110
Copper (US Producer)	134⅝-27¼c	+3
Lead (US Producer)	39c	
Nickel (free market)	530c	+10
Tin (European free market)	£4417.5	-37.5
Tin (Kuala Lumpur market)	19.60r	-0.04
Tin (New York)	343c	-0.5
Zinc (Euro. Prod. Price)	$1312.5	
Zinc (US Prime Western)	69⅞c	
Cattle (live weight)†	103.34p	-1.75*
Sheep (dead weight)†	141.33p	-6.48*
Pigs (live weight)†	70.57p	-0.14*
London daily sugar (raw)	$239.4x	-14.6
London daily sugar (white)	$238.0x	-10.0
Tate and Lyle export price	£251.5	-10.0
Barley (English feed)	£109.5q	
Maize (US No. 3 yellow)	£127v	
Wheat (US Dark Northern)	£126.5q	-0.5
Rubber (spot)♥	61.00p	
Rubber (Oct)♥	68.00p	
Rubber (Nov)♥	68.50p	
Rubber (KL RSS No 1 Oct)	299.0m	
Coconut oil (Philippines)§	$535s	-10
Palm Oil (Malaysian)§	$440	
Copra (Philippines)§	$365	
Soyabeans (US)	$198	-7
Cotton "A" index	55.60c	-0.80
Wooltops (64s Super)	650p	-5

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Oct. s-Sep/Oct. x-Oct/Nov. w-Nov/Dec. v-Oct/Dec. z-Nov. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Sep	776	783	783 772
Dec	724	730	736 723
Mar	738	744	747 732
May	752	761	760 748
Jul	771	776	775 769
Sep	787	795	796 783
Dec	835	840	837 825

Turnover: 3837 (5222) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for Sep 23: 919.49 (939.16) ;10 day average for Sep 26: 951.97 (956.65).

COFFEE £/tonne

	Close	Previous	High/Low
Sep	1170	1140	1165 1135
Nov	1175	1147	1175 1142
Jan	1144	1120	1152 1110
Mar	1114	1100	1127 1085
May	1115	1100	1126 1085
Jly	1120	1107	1125 1090
Sep	1126	1102	1100 1095

Turnover: 5682 (4110) lots of 5 tonnes. ICCO indicator prices (US cents per pound) for Sep 26: Comp. daily 113.97 (113.74); . 15 day average 113.33 (112.98).

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Oct	216.60	208.60	217.00 205.00
Dec	215.40	203.60	215.00 213.60
Mar	211.60	200.00	213.00 196.60
May	206.60	197.00	207.60 193.20
Aug	196.00	195.40	193.80
Oct	193.60		196.20 189.00
White	**Close**	**Previous**	**High/Low**
Dec	238.00	228.50	235.00 228.00
Mar	240.00	230.00	240.00 229.00
May	241.00	231.00	230.00 227.00
Aug	243.00	232.00	
Oct	240.00	230.00	230.00 229.00
Dec	240.00		230.00 229.00
Mar	240.00	231.00	231.00

Turnover: Raw 7523 (3010) lots of 50 tonnes. White 653 (1116).
Paris- White (FFr per tonne): Dec 1535, Mar 1540, May 1545, Aug 1560 Oct 1560, Dec 1560

GAS OIL $/tonne

	Close	Previous	High/Low
Oct	115.25	116.25	116.50 114.50
Nov	117.00	120.75	118.50 116.50
Dec	118.75	122.00	120.25 118.50
Jan	119.25	122.00	120.00 118.75
Feb	118.75	122.50	119.50 118.50
Mar	118.00		118.00
Apr	116.00	119.50	116.00
May	115.00		117.00 115.00
Jun	115.00		116.00 115.00

Turnover 7304 (5164) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Nov	108.35	108.10	108.35 107.80
Jan	111.25	111.00	111.25 111.00
Mar	114.00	113.70	114.00 113.70
May	116.90	116.60	116.90 116.80
Jun	118.50	118.30	118.50
Barley	**Close**	**Previous**	**High/Low**
Nov	105.85	106.10	106.00 105.85
Jan	108.85	109.10	109.00 108.85
Mar	110.90	111.20	110.90 110.75
May	112.90	113.00	112.90 112.75

Turnover: Wheat 64 (264) . Barley 185 (312). Turnover lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 20,650 tonne
Cash	2180-5	2270-80	2185	2185-90		
3 months	2152-5	2270-80	2260/2150	2160-5	2149-50	11,821 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 4,000 tonne
Cash	1270-5	1335-7	1280/1280	1280-5	1275-80	38,693 lots
Copper, Grade A (£ per tonne)						Ring turnover 31,350 tonne
Cash	1479-81	1498-500	1482/1480	1482-3		
3 months	1438-9	1452-4	1443/1431	1436-7	1440-1	62,758 lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1400-10	1430-5		1400-10		
3 months	1380-90	1400-5		1380-90		15 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	610-2	610-3		614-5		
3 months	623-5	623-6		627-8		448 lots
Lead (£ per tonne)						Ring turnover 6,450 tonne
Cash	357.5-8.5	365-7	360.5/360	359.5-60		
3 months	363-3.5	371-2	370/363	364.5-5	367-8	10,196 lots
Nickel ($ per tonne)						Ring turnover 1,848 tonne
Cash	11550-650	11200-400	11550/11500	11550-600		
3 months	10350-450	10400-50	10500/10362	10400-500	10300-400	6,052 lots
Zinc ($ per tonne)						Ring turnover 12,875 tonne
Cash	1240-4	1285-90	1258/1255	1258-60		
3 months	1221-4	1265-6	1245/1220	1236-8	1235-40	19,367 lots

POTATOES £/tonne

	Close	Previous	High/Low
Nov	55.0	55.9	55.0 54.5
Feb	70.0	68.0	
Apr	91.9	91.6	92.4 89.1
May	102.0	102.0	102.0 100.0

Turnover 332 (177) lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Oct	173.50	180.00	173.50 173.50
Dec	179.00	182.50	182.60 179.00

Turnover 163 (220) lots of 20 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Sep	1280	1295	1290 1280
Oct	1355	1386	1383 1356
Jan	1435	1470	1460 1433
Apr	1480	1508	1501 1475
Jul	1288	1317	1239 1288
BFI	1281	1288	

Turnover 571 (339)

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	395¾-396¼	235¾-236¼
Opening	397-397½	237-237½
Morning fix	397.00	237.653
Afternoon fix	397.10	236.369
Day's high	398-398½	
Day's low	395¼-395¾	

Coins	$ price	£ equivalent
Mapleleaf	407-412	242½-246
Britannia	407-412	242½-246
US Eagle	407-412	242½-246
Angel	405-410	241½-244½
Krugerrand	395-398	235½-237½
New Sov.	93-94	55¼-56
Old Sov.	93-94	55¼-56
Noble Plat	502.1-508.65	300-303.90

Silver fix	p/fine oz	US cts equiv
Spot	367.20	614.50
3 months	378.15	627.40
6 months	389.25	641.25
12 months	410.80	669.00

JUTE
C and f Dundee BTC $490, BWC $460, BTD $430, BWD $420, c and f Antwerp BTC $455, BWC $445, BWD $395, BTD $405.

COTTON
Liverpool- Spot and shipment sales for the week ended September 23 amounted to 271 tonnes against 305 tonnes in the previous week. Trading remained on the low side. Few dealings occurred and these were mainly in American, west African, Israeli and Chinese growths.

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Nov	Jan	Nov	Jan
2100	138	158	58	120
2200	86	113	105	173
2300	49	79	166	236

Copper (Grade A)	Calls		Puts	
2300	195	154	31	114
2400	129	109	63	167
2500	78	75	111	230

US MARKETS

IN THE precious metals, gold gained $2.20 as a weaker dollar was seen, reports Drexel Burnham Lambert. December gold closed at $402.50 after falling below $400 at one point. Silver and platinum markets featured some price consolidation as prices posted slight advances. Copper soared 170 points higher as new longs entered the market. Trade activity seemed to make up most of the volume. The grain markets had quiet trading sessions. Soyabeans and maize had slight gains while wheat was almost unchanged. Cotton futures remained weak as commission houses continued to liquidate their positions. In the softs, sugar prices gained 64 points in the March contract due mostly to fund and commission house short covering. Coffee advanced over 240 points on favourable news from Brazil. Cocoa recovered from yesterdays sell off to close up 9 points in the December. In the meat markets, pork belly prices were down 200 as lower cash prices were evident. Live cattle and hog markets were mixed with less activity. Energy trading was again effected by the past crude oil meeting. Prices were off 25 as overseas selling added weakness.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Sep	397.3	395.2	397.0	397.0
Oct	397.9	395.8	398.5	394.5
Nov	400.3	398.1	0	0
Dec	402.5	400.3	403.0	398.8
Feb	407.6	405.4	408.5	404.5
Apr	412.8	410.5	411.8	409.5
Jun	418.0	415.6	417.7	415.0
Aug	423.8	421.1	423.0	423.0
Oct	429.2	426.6	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Sep	485.6	485.1	0	0
Oct	485.6	485.1	489.0	483.8
Jan	489.1	488.4	491.5	487.0
Apr	495.1	493.6	497.0	495.0
Jul	501.1	499.6	501.0	501.0
Oct	508.1	506.6	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Sep	615.5	610.7	616.0	615.0
Oct	617.4	611.9	0	0
Nov	621.8	616.3	0	0
Dec	626.0	620.5	628.0	619.0
Jan	630.9	625.4	629.5	629.5
Mar	640.8	635.2	643.0	635.5
May	650.5	644.8	648.5	648.5
Jul	661.0	655.1	0	0
Sep	671.0	665.1	672.0	668.5
Dec	686.5	680.6	689.0	686.0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Nov	14.07	14.20	14.07	13.85
Dec	13.78	13.97	13.80	13.56
Jan	13.69	13.90	13.72	13.50
Feb	13.62	13.90	13.74	13.50
Mar	13.60	13.92	13.75	13.53
Apr	13.70	13.94	13.82	13.60
Jun	13.75	13.98	13.93	13.73
Aug	13.90	14.02	14.02	13.90

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	121.40	119.70	121.50	118.40
Oct	116.80	115.30	116.40	115.35
Nov	112.80	110.85	0	0
Dec	108.25	106.55	108.50	105.90
Jan	105.45	103.65	0	0
Mar	98.65	97.85	99.80	97.30
May	95.10	94.75	95.90	94.60
Jul	93.70	92.50	93.70	91.80
Sep	91.70	90.30	0	0
Dec	89.70	88.40	89.20	88.60

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Oct	3945	4023	3970	3895
Nov	4015	4095	4035	3960
Dec	4080	4156	4100	4030
Jan	4095	4195	4150	4070
Feb	4110	4170	4120	4060
Mar	3960	4030	3995	3940
Apr	3800	3910	3880	3800
May	3750	3835	3800	3735
Jun	3700	3790	3700	3685

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1133	1124	1142	1115
Mar	1147	1141	1151	1132
May	1166	1163	1172	1152
Jul	1193	1186	1194	1180
Sep	1213	1207	1215	1208
Dec	1252	1249	1250	1260

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	129.24	126.83	130.15	126.70
Mar	128.86	126.10	129.75	126.60
May	128.16	126.00	129.00	126.50
Jul	128.23	125.40	128.50	126.00
Sep	127.75	124.50	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	9.86	9.49	9.95	9.28
Jan	9.01	8.32	9.10	8.80
Mar	9.34	8.70	9.40	8.77
May	9.14	8.64	9.14	8.62
Jul	8.98	8.56	9.00	8.54
Oct	8.89	8.48	8.90	8.45
Jan	8.41	8.00	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Oct	51.80	51.85	51.90	51.50
Dec	49.77	49.98	50.10	49.60
Mar	49.88	50.00	50.15	49.70
May	50.17	50.32	50.25	50.10
Jul	50.55	50.65	50.70	50.50
Oct	51.25	51.50	51.35	51.20
Dec	51.61	51.80	51.90	51.60

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	177.45	174.90	177.50	175.60
Jan	168.00	165.75	168.00	166.25
Mar	165.70	164.00	166.00	164.40
May	164.95	162.65	165.20	164.50
Jul	163.85	161.65	163.90	163.40
Nov	160.95	160.65	0	0
Jan	160.95	160.65	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)			
Sept 26	Sept 23	mnth ago	yr ago
1863.6	1861.9	1815.0	1662.6

DOW JONES (Base: Dec. 31 1974 = 100)				
Spot	132.25	133.22	132.36	126.79
Futures	133.97	134.51	136.31	130.36

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	810/0	806/2	814/4	799/0
Jan	821/0	816/0	825/0	809/4
Mar	827/2	821/4	832/0	817/0
May	826/4	820/4	830/4	816/4
Jul	818/0	811/4	823/0	806/4
Aug	806/4	803/4	814/0	799/0
Sep	757/0	755/0	763/0	752/0
Nov	729/2	723/4	732/0	721/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Oct	24.08	23.55	24.13	23.35
Dec	24.62	24.07	24.65	24.00
Jan	24.90	24.37	24.93	24.30
Mar	25.47	24.90	25.50	24.80
May	25.87	25.30	25.90	25.20
Jul	25.90	25.20	25.95	25.25
Aug	25.80	25.25	25.85	25.40
Sep	25.82	25.30	25.85	25.40

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Oct	252.7	255.7	256.5	250.2
Dec	254.3	257.2	258.0	252.0
Jan	254.2	256.7	257.5	252.0
Mar	253.0	254.7	256.5	251.0
May	250.0	251.0	253.0	248.0
Jul	244.5	247.5	250.0	243.6
Aug	238.0	241.0	244.0	238.0
Sep	228.0	235.0	234.0	228.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	286/4	280/6	288/2	280/0
Mar	292/2	287/2	294/2	286/4
May	295/2	291/0	296/6	290/0
Jul	293/0	289/6	295/0	289/0
Sep	274/4	272/4	275/4	271/4
Dec	261/6	262/0	264/0	260/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	421/6	422/2	422/2	418/4
Mar	426/6	427/4	427/0	424/0
May	401/4	402/4	403/0	400/0
Jul	370/4	371/0	371/0	368/4
Sep	373/0	374/0	374/0	372/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	70.92	70.95	71.07	70.62
Dec	73.45	73.07	73.47	72.86
Feb	73.95	73.95	74.15	73.70
Apr	75.27	75.37	75.45	75.65
Jun	74.30	74.50	74.56	74.10
Aug	71.72	71.75	72.00	71.70
Sep	71.40	70.80	71.40	71.40

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Oct	39.92	40.30	40.50	39.65
Dec	42.72	43.15	43.50	42.80
Feb	45.32	45.87	46.10	45.25
Apr	44.50	45.10	45.35	44.30
Jun	49.25	49.87	49.90	48.86
Jul	49.27	49.90	50.00	49.15
Aug	48.15	48.70	48.85	48.00

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	50.10	52.10	51.90	50.10
Mar	50.62	52.42	52.35	50.55
May	52.15	54.15	53.85	52.15
Jul	52.80	54.00	54.25	52.62
Aug	51.32	52.62	52.30	51.32

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | JAPAN | FRANCE (continued) | GERMANY (continued) | GERMANY | ITALY (continued) | ITALY | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | AUSTRALIA | AUSTRALIA (continued) | HONG KONG | SINGAPORE

[illegible]

CANADA

TORONTO

Closing prices September 26

[illegible]

Sales	Stock	High	Low	Close	Chng
100	Can Capital	$11½	11½	11½	
22200	CanCap A	$9	8⅞	8⅞	− ⅛
13200	Centfd A	$6⅝	6½	6½	
2331	C Guar Trc	$20	19¾	19¾	
700	Charan	290	290	290	− 5
4540	Cineplex	$13⅝	13⅜	13⅜	− ⅛
173813	Cominco	$18⅛	18	18⅛	+ ⅛
8650	Computlog	$5½	5⅜	5⅜	− ⅛
109925	Connaught	$31⅝	30⅝	31¼	− ¼
60548	Con Bath A	$15	14¾	14⅞	+ ⅛
142	C HCI A I	$8	8	8	− ½
68300	Intl Thom	$14⅛	14	14	− ⅛
1800	Inv Grp	$13⅜	13½	13⅜	+ ⅛
160	Ipsco	$18⅞	18⅞	18⅞	+ ⅛
510	Ivaco A f	$12½	12½	12½	
11850	Jannock	$17⅛	17	17⅛	+ ⅛
408	Kerr Add	$19⅜	19	19⅜	+ ⅛
63684	Labatt	$22⅞	22⅞	22⅞	− ⅛
62565	Lac Minrls	$11⅞	11⅝	11⅝	− ⅛
265	Lafarge p	$22⅛	22⅛	22⅛	
9825	Laidlaw A	$17½	17½	17½	
125854	Laidlw B f	$16½	16¼	16½	+ ⅛
360243	Royal Bnk	$34½	34¼	34½	
5794	RyTrco A	$16	15⅞	16	− ⅛
7400	SHL Syst	$11	10⅞	10⅞	+ ⅛
300	SNC A I	$6⅝	6⅝	6⅝	− ⅛
25000	SIL ComA f	$12⅝	12½	12½	− ⅛
4900	Samuel MT	$16⅛	16	16⅛	+ ⅛
2101	Saskoil	$8⅝	8½	8⅝	+ ⅛
1100	Sceptre	370	370	370	− 5
1875	Scotts f	$13	13	13	− ⅛
21100	Scotts C	$13⅛	13	13⅛	− ⅛
15377	Seagram	$87	86⅛	86⅝	− ⅜

MONTREAL

Closing prices September 26

Sales	Stock	High	Low	Close	Chng
4323	ConBath	$14⅞	14⅞	14⅞	
1730	DomTxtA	$15⅝	15⅝	15⅝	
228	MntTrst	$16⅛	16⅛	16⅛	+ ⅛
40220	NatBk Cda	$11½	11½	11½	
4268	Noverco	$11⅛	11⅛	11⅛	
25435	Power Corp	$12⅜	12⅛	12⅛	− ⅛
11041	Provigo	$10⅝	10⅛	10⅛	− ⅛
22532	Royal Bank	$34½	34⅛	34⅛	
310	SteinbrgA	$32⅛	32⅛	32⅛	
2825	Videotron	$12	11⅞	11⅞	

Total Sales 2,847,915 shares

INDICES

NEW YORK DOW JONES

	Sep 26	Sep 23	Sep 22	Sep 21	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2085.17	2090.68	2080.01	2090.50	2158.61 (5/7)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.88	88.91	89.05	89.12	91.25 (3/3)	86.12 (4/1)	–	–
Transport	891.73	892.32	888.29	892.77	908.45 (5/7)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	179.35	179.71	179.53	179.53	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2098.33 (2097.80) Low 2075.75 (2070.41)

STANDARD AND POOR'S	Sep 26	Sep 23	Sep 22	Sep 21	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	268.88	269.76	269.18	270.16	275.66 (22/6)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	308.40	309.40	308.82	310.11	318.54 (22/6)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	25.84	26.01	25.91	25.98	26.05 (16/9)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	151.96	152.38	152.08	152.64	155.35 (22/6)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	298.74	299.11	298.25	298.97	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	382.75	384.98	384.86	384.91	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Sep 23	Sep 16	Sep 12	year ago (approx.)
Dow Industrial Div. Yield	3.70	3.68	3.71	2.68
	Sep 21	Sep 14	Sep 7	year ago (approx.)
S & P Industrial div. yield	3.19	3.19	3.24	2.40
S & P P/E ratio	13.03	13.00	12.80	23.20

TRADING ACTIVITY † Volume Millions

	Sep 26	Sep 23	Sep 22
New York	117.226	145.100	150.675
Amex	6.480	10.018	10.452
OTC	92.753	141.371	134.257

NEW YORK

	Sep 26	Sep 23	Sep 22
Issues Traded	1,906	1,954	1,933
Rises	536	721	539
Falls	811	684	866
Unchanged	559	549	528
New Highs	22	21	23
New Lows	12	16	21

CANADA

TORONTO	Sep 26	Sep 23	Sep 22	Sep 21	1988 High	1988 Low
Metals & Minerals	2722.4	2714.0	2691.2	2705.8	3226.5 (5/7)	2238.7 (8/2)
Composite	3260.6	3260.4	3252.3	3258.6	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1626.36	1628.22	1620.47	1629.15	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Southeast Bank	3,597,800	23⅛	+ ⅝	TW Services	1,786,200	24⅛	+ 1¼
Bell Atlantic (xd)	2,971,600	70⅛	− 1¼	Salomon Inc	1,762,200	25⅝	–
Commonw'th Ed (xd)	2,744,300	30⅛	− ½	Baxter Intl	1,414,300	17⅞	− ⅛
Best Prod	2,330,700	18⅝	+ 3⅞	K Mart	1,363,900	38⅛	− 1¼
Kroger	1,906,500	56⅛	+ ⅝	Imperial	1,340,600	11	− ⅛

Base values of all Indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

	Sept 27	Sept 26	Sept 23	Sept 22	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1545.0	1543.3	1551.1	1541.7	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	709.4	702.8	707.9	696.2	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	205.90	205.00	203.0	202.7	205.90 (27/9)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/80)	5244.90	5203.5	5229.5	5257.5	5315.1 (21/9)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	(u)	227.30	231.12	230.28	230.28 (22/9)	180.68 (4/1)
FINLAND						
Unitas General (1975)	693.2	695.6	698.4	700.7	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	375.8	375.3	370.7	371.6	375.8 (27/9)	251.3 (29/1)
Ind. Tendance (31/12/87)	143.1	144.1	143.1	143.7	144.1 (26/9)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	516.61	517.55	515.51	515.58	518.40 (21/9)	396.40 (29/1)
Commerzbank (1/12/53)	1569.10	1572.20	1567.40	1567.30	1576.40 (21/9)	1207.9 (29/1)
DAX (30/12/87)	1248.36	1257.03	1252.58	1253.68	1260.99 (21/9)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2466.27	(c)	2454.38	2455.84	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	537.47	537.40	536.48	530.64	545.07 (18/3)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	27499.56	27330.95	(c)	27428.31	28423.38 (5/8)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2116.81	2095.84	(c)	2108.55	2253.10 (2/8)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	270.20	270.00	269.5	270.7	284.8 (9/8)	205.7 (4/1)
ANP-CBS Industrial (1970)	230.30	228.90	227.7	228.2	239.3 (9/8)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	383.03	382.91	383.55	385.03	423.64 (21/7)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1022.28	1023.10	1033.71	1045.86	1177.87 (8/8)	833.60 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1245.0♦	1225.0	1214.0	1202.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1690.0♦	1691.0	1705.0	1662.0	1758.0 (20/7)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	273.71	273.32	273.52	275.21	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3088.40	3099.70	3116.50	3124.50	3124.50 (22/9)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	565.00	564.90	560.90	561.80	565.00 (27/9)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	436.5	438.6	438.4	465.2 (15/6)	401.0 (21/1)

**Saturday Sept. 24: Japan Nikkei 27,390.12 and TSE 2,099.24.
♦ Subject to official recalculation

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

4pm prices September 26

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
27⅞	14	AAR s	.36	1.4	18	245	26	25¼	25¼	– ⅞
10⅛	9¼	ACM n				41	9⅞	9¾	9¾	
12⅛	8¾	ACMIn n1.26e		12.		384	11	10⅞	10⅞	
12⅛	10⅝	ACMSc n1.26		12.		336	10⅞	10¾	10¾	– ⅛
10⅛	8⅞	ACMSp n.25e		2.7		224	9⅛	9⅛	9⅛	
28⅞	10½	AGS			20	734	28⅛	28⅛	28⅛	– ⅛
7¼	2⅞	AMCA				18	3⅞	3¾	3⅞	
7¾	3¼	AM Intl				416	5½	5⅜	5⅜	– ⅛
28½	17	AM Int pf 2		9.2		107	21⅞	21⅝	21¾	+ ⅛
57½	26⅞	AMR			9	1137	46½	46	46	– ⅞
27	25	ANR pf 2.67		10.		160	26⅜	26⅛	26⅛	
24⅜	19	ANR pf 2.12		8.8		2	24	24	24	
10	5¼	ARX			11	5	7	7	7	
[illegible]										

Continued on Page 47

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
13¼	7	RLI Cp	.36	4.3	8	x67	8½	8¼	8½	
6⅞	3	RPC			29	25	6½	6¼	6⅜	− ⅛
3½	13-32	Radice				15	½	½	½	−1-16
93½	57⅝	RalsPur	1.80	1.9	14	615	79	78	79	+ ⅞
10¼	4	Ramad				3620	10⅛	9⅝	9⅝	− ½
8½	3⅞	RangrO			47	239	5¾	5⅝	5⅝	− ⅛
54¾	29½	Raycm s.24		.6	11	587	42⅝	42⅛	42¼	− ⅜
17¼	8⅜	RJamFn	.16	1.6	14	14	10	9⅞	9⅞	− ⅛
22⅞	14⅞	Rayonr	2.60	13.	7	15	20	19⅞	19⅞	
12⅛	3¼	Raytch	.05e	1.3	54	47	3⅞	3⅝	3⅞	− ⅛
84½	57¼	Raythn	2	2.9	10	950	69⅝	69	69⅝	+ ⅛
4½	11-16	ReadBt				128	15-16	⅞	⅞	
10	2¼	RdBat pf				27	2½	2⅜	2⅜	
7½	1⅞	RdBt pfA				2	2⅛	2⅛	2⅛	− ⅛
19¼	14¼	REIT	1.34	7.9	15	x3	16⅞	16⅞	16⅞	+ ⅛
16½	13	RitRef	1.72	12.	9	3	14⅞	14⅞	14⅞	
15½	6¼	ReonEq			22	160	8⅛	7⅞	7⅞	− ⅛
10⅞	5¼	Redmn	.36	3.7		54	9⅞	9⅝	9⅝	
18¾	7	Reebok	.30	2.7	7	2162	11⅜	11⅛	11⅛	− ⅜
16	8¼	Reece	.15e	1.3	17	7	11⅞	11⅞	11⅞	
2⅛	5-16	Regal				108	5-16	5-16	5-16	
7⅜	4⅜	RegFn	.25e	3.9		59	6½	6⅜	6⅜	
16⅞	11	ReichTg	1.76	12.	9	x28	15⅛	15	15	− ⅛
10	4½	RelGrp	.24	4.9	4	337	5	4⅞	4⅞	+ ⅛
8½	4⅝	RepGyp	.35	5.9	31	25	6⅛	6	6⅛	
54¾	36¼	RepNY	1.20	2.6	11	152	47	46⅝	47	+ ⅜
28⅜	19¾	Rexene	n.15e	.7		x130	20⅞	20⅝	20⅞	+ ⅜
61⅞	28	ReyMtl	1	2.0	8	3620	50⅜	49⅝	50	+ ⅛
42¼	28½	RiteAid	.74	2.0	16	675	36⅞	36⅜	36½	+ 1⅛
1⅛	½	RvrOak				138	⅝	½	9-16	+ 1-16
19¼	10¼	Robtsn			4	36	11⅜	11¼	11¼	+ ⅛
29⅝	12¼	vjRobins			13	29	25¼	25⅛	25⅛	
18¼	14⅛	RochG	1.80	9.7	11	486	17⅞	17⅝	17⅝	− ⅛

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
60¼	47	Xerox pf4.15		8.5		1	49½	49½	49½	
36	19½	XTRA	.72	2.3	14	277	34	33¾	33¾	
59⅞	17¼	Yorkkl			15	69	52½	52½	52½	
5⅛	2¼	Zapata				205	2⅝	2⅝	2⅝	
37	15½	Zayre	.40	1.6	62	4103	25⅛	24⅝	25	+ ⅜
18½	8¼	Zemex	.40	2.9	17	2	13⅝	13⅝	13⅝	− ⅛
30	10	ZenithE				1162	20	19⅝	19⅝	− ⅛
10⅝	9½	Zenln n	.36e	3.8		52	10	9⅞	9⅞	− ⅛
7⅜	1	vjZenLb				369	2⅛	2⅛	2⅛	− ⅛
21⅝	12¼	ZenNtl	.80b	4.4	8	122	18⅛	18⅛	18⅛	
19⅞	11⅜	Zero	.40	2.6	14	46	15⅞	15⅝	15⅝	− ⅛
25¾	15	Zurmin	.68	2.7	16	181	25½	25⅛	25⅛	− ⅜
11⅛	7⅝	Zweig	1.04	10.		353	10⅜	10⅛	10⅛	− ⅛
10⅛	10	ZweigT n				2799	10⅛	10	10	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices September 26

OVER-THE-COUNTER

Nasdaq national market, 4pm prices September 26

Stock	Div.	Sales 100s	High	Low	Last	Chng
Worthg	.44	15 185	21¾	21⅝	21¾	
Wyman	.80	13 5	14½	14	14	− ½
−X−Y−Z−						
XL Dt s		14 41	24	23½	23⅝	− ⅛
XOMA		510	14⅛	14½	14⅝	
X-Rite s		15 24	11⅞	11⅛	11¼	− ½
Xicor		16 95	9⅛	8⅞	9	− ⅛
Xyvsn		3 66	5⅛	5	5⅛	+ ⅛
YlowF s	.70	19 3346	30½	29½	30⅝	+ ⅞
ZionUt	1.44	19	23½	23	23½	

FINANCIAL TIMES

AMERICA

Takeover issues provide only interest in dull trade

Wall Street

THE DRIFT lower by equities continued on Wall Street yesterday, with the Dow Jones Industrial Average gradually retreating below the 2,100 level, *writes Janet Bush in New York.*

The Dow closed 2.84 points lower at 2,082.32. Again volume was very subdued, with only 113m shares traded, one of the slowest sessions this year. The only points of interest in what is an increasingly dull and trendless market are individual stocks involved in takeovers or other specific situations. Overall, there is no momentum, no trend and apparently no sign that this state of affairs is about to change.

This week sees the publication of very few significant economic indicators. In the past few months, these have been the only trigger for significant movements in stocks or bonds.

US leading indicators for August are due for release on Friday and are expected to be unchanged to slightly lower. This is not likely to give much impetus to stocks trading.

Amid this malaise, the tendency seems to be for the market to drift lower, although there has been little real selling pressure.

Mr Newton Zinder, equity analyst at Shearson Lehman Hutton, pins his hopes for a rebound in the stock market on those indicators which show a significant degree of bearishness. He notes that put options on the Standard & Poor's 100 index have become very popular, and that the put-call ratio on the S&P 100 on Monday stood at 1.34, its highest level since mid-May. This implies that investors expect stock prices to continue their downward trend.

However, there are those, like Mr Zinder, who believe that the time to buy – and thus the time when stock prices will begin to recover – is when the mood of the market is at its most negative. "Bearish sentiment seems to be increasing and this usually leads to higher stock prices though the timing of such a move can vary," Mr Zinder said.

Stocks in the middle of takeover fights, or enjoying the prospect of a potential leveraged buy-out, are almost the only shares performing well.

Among featured stocks was Macmillan, which added $1½ to $88⅝ after Maxwell Communications, owned by Mr Robert Maxwell, the UK newspaper publisher, sweetened its bid for the company to $89 a share from $86.80 previously offered, providing the American publisher will agree to a friendly merger.

Macmillan had agreed to a merger with Kohlberg, Kravis Roberts & Co but withdrew when it became clear that Mr Maxwell would raise his bid. Macmillan said yesterday it had received indications that Kohlberg, Kravis might also boost its offer under certain conditions.

Anheuser-Busch Companies, the largest US brewer, fell $¼ to $31¾ in heavy trading on the New York Stock Exchange following news that the investment subsidiary of Australia's Elders IXL had taken a small stake in the company. The stock's early gain was wiped out after an Elders spokesman said the company had stopped accumulating stock.

Clark Consolidated, the distributor of electrical supplies, jumped $2⅞ to $20 in trading on the American Stock Exchange after news that it had received a $20.50-a-share takeover offer from Willcox & Gibbs. This offer betters a bid of $17 a share from an investor group headed by members of its management.

Crystal Brands rose $1¼ to $23¼ after a block representing 2.4 per cent of its shares was traded at the opening.

Computer Horizons fell $1⅞ to $7⅞ on the over-the-counter market after the company said that its third quarter earnings would be adversely affected by at least 15 cents a share because of the early termination of two major projects.

Canada

A LACKLUSTRE performance by equities left Toronto slightly higher in thin, mixed trading, with gold and base metal issues providing the upward impetus.

The composite index gained 1.6 to 3,262.2 on light turnover of 14m shares.

ASIA PACIFIC

Volume gains strength as Nikkei ends losing streak

Tokyo

TURNOVER returned to healthy levels in Tokyo yesterday and share prices rose for the first time in four trading days, *writes Michiyo Nakamoto in Tokyo.*

Stability in exchange rates and interest rates, together with low oil prices, were providing a good environment for the market in the new fiscal term, said one analyst at Daiwa Securities.

The Nikkei average gained 165.81 to 27,499.56. The high of the day was 27,499.56 and the low was 27,331.01, while volume climbed to 1.76bn shares compared with 605m on Monday.

In London, Japanese shares rose further, with the ISE/Nikkei 50 index up 4.01 at 1,778.34.

While the Nikkei ended higher in Tokyo, declining issues still outnumbered those that advanced – by 449 to 372, with 148 unchanged – and the climb in the index was accounted for largely by strong gains in a number of selected issues, analysts said.

"It was a case of follow the leaders," said Mr George Nimmo of SBCI Securities (Asia). Investors appeared to be uncertain about which sectors to choose and therefore stayed with the big names that had been gaining over the past few days, he said.

Steel issues were again widely bought, reflecting investor expectations that they will be the focus of the big securities firms' marketing efforts in the new business year, beginning October 1.

Nippon Steel was the volume leader at 325.1m shares, gaining Y30 to Y807. Kawasaki Steel rose Y39 to another record high of Y918 and was the second most heavily traded issue at 253m shares. NKK, third in volume at 236.6m shares, advanced Y39 to Y819.

Medium-sized steel companies also showed considerable strength. Tokyo Steel Manufacturing increased Y230 to Y3,280 while Daido Steel Sheet advanced Y110 to Y1,690.

Companies that have been popular recently on the strength of their property holdings along Tokyo's waterfront were once again selected. Tokyo Gas, which owns extensive land along Tokyo Bay and in a part of Chiba prefecture that will be the gateway to a planned bridge across Tokyo Bay, added Y110 to Y1,390. Tokyo Gas also revised its recurring profit for the current business year upwards from Y65bn to Y68bn.

Transportation companies regained their recent popularity, stemming from their land assets as well as Japan's strong leisure industry. Tobu Railways advanced Y60 to Y1,270 while Keisei Railways added Y170 to Y2,700. Tokyu Railways increased Y100 to Y1,720.

Volume picked up in Osaka as well, but the OSE average once again closed lower at 25,897.19, down 18.45. The number of shares traded increased to 181.82m from 97.74m on Monday.

Roundup

LOW VOLUMES and small gains were the feature in the Asia Pacific markets yesterday. Local investors continued to dominate in the absence of buying interest from overseas institutions, particularly in Singapore.

AUSTRALIA moved ahead quietly in steady early trading, but the lack of direction from foreign markets saw stocks close just a touch higher on the day. The All Ordinaries index rose 1.7 to 1,545.0 as turnover reached 86.57m shares worth A$173.49m.

Elders IXL, the diversified brewing group, attracted considerable interest after announcing record half-year profits of almost A$685m, a rise of 72 per cent on last year. The news prompted a quick surge of buying, during which the share price peaked at A$3.48, before finally slipping back to close at A$3.38, down 5 cents on the day.

HONG KONG returned from Monday's holiday in a quietly confident mood, with property stocks leading the market higher. The Hang Seng index ended the day 11.89 better at 2,466.27 as shares worth HK$309.20m changed hands. In the short-term the market is expected to benefit from a string of good corporate results.

SINGAPORE benefited from a spate of late bargain-buying and gains in Tokyo, both of which helped shares rebound from a midday low. By the close, the Straits Times industrial index was 0.82 points down at 1,022.28 on turnover of 13.9m shares.

Individual local investors continued to fill the gap left by the absence of big foreign buyers, with activity centred on hotels, properties, marine-related and speculative stocks. Blue chips and quality stocks were among the few to record reasonable volumes.

France rejoices at good corporate harvest

Paul Betts reflects on why Japanese investors, among others, are turning to Paris

In this season of mists and mellow fruitfulness, the Paris bourse is living up to its autumnal promise. The main stock indices have been rising steadily and have now recouped all the ground lost following the crash of October 1987.

The end of the September trading account went without a hitch and the new monthly trading account has started on a bullish note, with strong demand during the past few sessions.

The disappointing French trade figures, showing an unexpectedly heavy deficit of FFr9bn for August, formed a brief cloud last Thursday, the last day of the September settlement period. The poor trade performance reflected both a rise in domestic consumption and the growing deficit in the French industrial goods balance. However, after the initial shock, the market regained its composure, resuming its advance after an average 7 per cent gain in French stock prices during the last monthly trading account.

The bullish sentiment, which helped 157 of the 200 stocks on the monthly settlement market advance this month, has been boosted by the far larger-than-expected profits which leading French companies have been reporting during the past few days for the first-half of the year.

Peugeot, for example, announced yesterday a rise in its first-half pre-tax profits to FFr7.1bn from FFr4.2bn in the same period the year before and a 21 per cent increase in first-half net profits to FFr4bn after paying considerably more taxes than last year.

Elf-Aquitaine, the oils group, last week reported a 35 per cent increase in first-half profits to FFr3bn; Saint-Gobain, the glass maker, a 49 per cent rise in interim earnings to FFr1.75bn; and aluminium producer Pechiney has just reported a near tripling in its first-half income to FFr744m.

The sharp improvement in French corporate profitability, which is likely to be further stimulated by the Government's decision in its latest budget to reduce corporate taxes further, from 42 per cent to 39 per cent for reinvested profits, has had an undoubtedly bracing effect on both domestic and foreign investors.

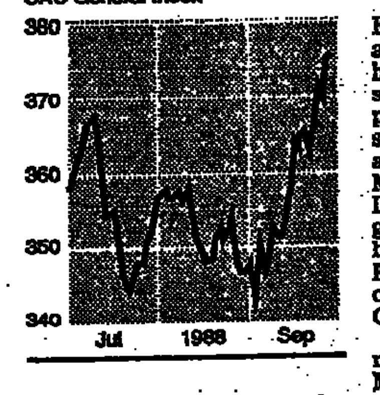
Indeed, this renewed corporate confidence – confirmed by the latest report by INSEE, the French statistics institute, on French business attitudes, showing that most of the country's chief executives were optimistic on the coming months – has helped to bring back foreign investors to Paris.

Stockbrokers say foreign investors currently regard French stocks as relatively "cheap" and have noted increasing interest from Japanese investors, who have in the past been relatively cautious on French stocks. Brokers are now expecting the Japanese institutions to adopt a more aggressive approach to the French market.

Takeover speculation has also helped sustain some stocks such as drinks group Perrier, which saw its shares gain as much as 29 per cent during the September trading account. Speculation on the latest manoeuvres of Mr Carlo De Benedetti, the Italian financier, have also again put the spotlight on Compagnie du Midi, although the two parties have denied reports they were considering an asset swap involving Mr de Benedetti's stake in Société Générale de Belgique.

France

CAC General Index



With the curtain falling on the LVMH saga this past Monday, however, some of the takeover bubbles have gone out of the market.

The battle for control of the French champagne, cognac and luxury goods conglomerate had kept the bourse excited all summer. However, the various parties finally reached an armistice with a power sharing agreement accommodating the Moët-Hennessy camp, the Louis Vuitton clan and the group's new leading shareholder, Mr Bernard Arnault of Financière Agache, which owns Dior, with his partner Guinness.

However, the market does not expect the pact sealed on Monday – with the election of LVMH's new executive board – to be the end of the story, which has propelled the luxury group to the top of the French bourse in terms of market capitalisation. Moreover, the saga of the past few months does not seem to have affected the company's performance. In line with the strong results of other leading companies, LVMH has reported a 44 per cent rise in first-half income to FFr634m.

EUROPE

Frankfurt and Paris ease on profit-taking

ANOTHER day of quiet trading lay in store yesterday for most European bourses, with turnover sticking at relatively low levels, *writes Our Markets Staff.*

FRANKFURT lost ground as part of a consolidation after recent strong gains, and volumes were low again at DM2.2bn worth of German shares.

The FAZ index, calculated at midday, was off 0.94 at 516.61 and the real-time index fell 8.67 to 1,248.36. One salesman said: "People are just running out of things to buy."

Allianz was one of the few strong movers, as the old rumours continued; that it was looking to take a stake in Dresdner Bank or in a Swiss bank. The stock rose DM9 to DM1,701.

Among banks, Deutsche Bank fell DM3.50 to DM513.50, Dresdner lost DM1 to DM286.70 and Commerzbank eased DM2.30 to DM244.50.

Car maker Daimler dropped DM3 to DM706, BMW fell DM3 to DM506 and VW slipped DM1.30 to DM267.70.

In chemicals, BASF receded DM3.10 to DM272.50. Bayer shed DM2.50 to DM302.50 and Hoechst fell DM4.10 to DM293.

PARIS ended lower on profit-taking inspired in part by the weak opening on Wall Street, after opening strongly on the back of healthy corporate results.

The CAC General index was up 0.5 at a year's high of 375.8, but by the end of the session the OMF 50 index was off 1.35 at 379.89. Volumes were estimated at about the same level as, or even lower than, Monday's FFr1.39bn worth of shares.

Car maker Peugeot estimated a 21 per cent improvement in first-half profits but lost FFr13 to FFr1,238. The rise was lower than the 35-50 per cent range being reported by many companies and was thus discounted, said one analyst.

Valeo, the car components maker, saw strong demand again, with about 70,000 shares dealt, but lost ground on profit-taking, falling FFr9 to FFr590.

BRUSSELS continued its upward climb, helped by the reluctance of investors to sell stock, and the forward index added 79.54 to 5,447.09. The cash index was up 41.46 at 5,244.98.

The release of strong earnings figures *has* underpinned the market, and the prospect of more to come – with Delhaize and GBL expected to report this week – is keeping demand buoyant, one analyst said.

Unidentified buying of Tractebel, the engineering and energy group, seemed to have dried up after Monday's shareholders' meeting, and volumes returned to moderate levels. The stock added BFr220 to BFr8,250.

Solvay lost BFr25 to BFr13,275 after news late on Monday of a 24 per cent rise in interim earnings. Some selling was reported from London.

ZURICH suffered from the absence of positive domestic news and Wall Street's weakness as shares closed slightly lower on the day. The firm dollar, however, helped support export stocks.

Although Zurich's recent rally has been blue-chip led, the market's leading stocks failed to provide any direction yesterday, with Ciba-Geigy bearers SFr15 lower at SFr3,305, Nestlé bearers SFr20 higher at SFr8,760, and Hoffmann-La Roche baby certificates – unable to sustain Monday's gains – SFr100 easier at SFr12,750.

Insurance company Neuchâtel's shares lost about 7 per cent of their value after news that Winterthur had increased its stake. By the close, Neuchâtel stood at SFr1,200 and Winterthur bearers at SFr5,675, down SFr25. Institutional demand pushed Brown Boveri & Cie part certificates SFr1 higher to SFr340.

AMSTERDAM was slightly better on the positive economic news filtering through from the meetings in West Berlin, the better-than-expected UK trade figures and Wall Street's higher opening.

By the close, the CBS all-share index had inched 0.1 higher to 97.4.

Blue chips were generally weaker, with Royal Dutch Petroleum 90 cents lower at Fl 222.10 on worries of falling oil prices.

MILAN enjoyed a late surge of interest, which brought volume back to respectable levels after dull early trading. The Comit index closed 0.54 down at 536.93.

Fiat dropped L45 to L9,480 at the close but recovered after hours to L9,540. Fiat is expected to report improved first-half profits today. Olivetti gained L60 in after-hours trading to L9,780, before announcing a 24 per cent drop in interim profits.

STOCKHOLM was hit by widespread profit-taking and uncertainty before the opening of parliament and the Prime Minister's policy statement next Tuesday. The Affärsvärlden index fell 2.8 to 901.2 on turnover worth just SKr267m.

Svenska Handlesbanken was the market's main feature, rising SKr1 to SKr134 after reporting a 23 per cent jump in profits for the first 8 months of this year to SKr2.1bn.

HELSINKI closed lower for the fourth day in succession, with the Unitas all share index ending down 2.4 at 693.2 on volume worth FM36.5m.

Yesterday saw the first day's trading on Finland's second stock exchange in the west coast city of Turku. With 14 members, including 6 brokers, the exchange will include all the instruments traded on the Helsinki bourse except bonds.

MADRID saw livelier trading than of late, but with buyers matching sellers throughout the day the general index closed just 0.39 up at 273.31.

OSLO ended a touch easier with investor interest restricted to the leading stocks.

London stock market, Page 41

SOUTH AFRICA

A PARTIAL recovery in the bullion price to $387 helped gold stocks close firmer in Johannesburg. Trading was dull, with dealers and investors adopting a cautious approach.

Leading stocks were mixed, with gold issue Vaal Reefs R6 better at R251 and diamond share De Beers 25 cents lower at R41.75. Kloof advanced 50 cents to R32.25.

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY SEPTEMBER 27 1988					MONDAY SEPTEMBER 26 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (85)	138.13	+0.2	122.01	117.32	4.09	137.80	122.56	117.36	152.31	91.16	172.91
Austria (16)	87.91	+0.3	77.65	85.83	2.44	87.62	77.92	85.72	98.18	83.72	100.28
Belgium (63)	120.59	+1.2	106.52	118.51	4.26	119.16	105.98	117.25	139.89	99.14	126.49
Canada (125)	118.64	+0.3	104.79	104.68	3.27	118.32	105.23	104.66	128.91	107.06	136.47
Denmark (39)	130.85	+0.3	115.58	128.22	2.33	130.43	116.00	128.04	132.72	111.42	115.84
Finland (26)	114.68	-0.7	101.29	106.86	1.65	115.50	102.73	107.92	139.53	106.78	–
France (128)	96.68	-0.3	85.40	96.98	3.34	97.00	86.27	97.49	99.62	72.77	109.68
West Germany (100)	79.08	+0.0	69.85	77.25	2.40	79.08	70.33	77.41	80.79	67.78	100.40
Hong Kong (46)	100.82	+0.5	89.05	101.11	4.83	100.35	89.25	100.64	111.86	84.90	154.81
Ireland (18)	129.60	+0.1	114.47	128.01	3.87	129.45	115.13	128.09	144.25	104.60	147.00
Italy (100)	72.38	+0.2	63.93	75.67	2.66	72.23	64.24	75.73	81.74	62.99	91.14
Japan (456)	157.55	+1.2	139.16	133.90	0.55	155.64	138.42	132.47	177.27	133.61	146.46
Malaysia (36)	135.00	+0.3	119.24	138.90	2.87	134.54	119.66	138.66	154.17	107.83	176.48
Mexico (13)	158.51	-3.5	140.01	390.80	1.39	164.30	146.12	410.73	180.07	90.07	370.13
Netherland (38)	101.17	-0.1	89.36	97.82	4.98	101.28	90.07	98.11	110.66	95.23	124.41
New Zealand (20)	70.48	+0.1	62.26	60.42	6.00	70.40	62.61	60.78	84.05	64.42	135.07
Norway (25)	111.77	-0.1	98.72	105.17	2.85	111.83	99.46	105.46	132.23	98.55	176.08
Singapore (26)	116.46	+0.3	102.86	109.51	2.50	116.15	103.30	109.30	135.89	97.99	166.17
South Africa (60)	103.43	+2.7	91.36	90.44	4.75	100.69	89.55	89.83	139.07	98.26	183.17
Spain (43)	135.28	+0.2	119.49	127.65	3.53	134.98	120.05	127.88	164.47	130.73	158.81
Sweden (35)	119.09	-0.4	105.19	113.76	2.51	119.62	106.38	114.48	125.50	96.92	129.11
Switzerland (55)	77.49	+0.3	68.45	76.41	2.22	77.29	68.74	76.36	86.75	74.13	108.37
United Kingdom (322)	126.09	+1.5	111.37	111.37	4.70	124.27	110.52	110.52	141.18	120.66	158.08
USA (580)	109.73	-0.2	96.92	109.73	3.64	109.99	97.82	109.99	112.47	99.19	131.31
Europe (1008)	103.79	+0.7	91.68	97.33	3.82	103.08	91.68	97.09	110.82	97.01	127.93
Pacific Basin (669)	154.48	+1.2	136.45	131.84	0.77	152.69	135.79	130.51	172.26	130.81	147.65
Euro-Pacific (1677)	134.22	+1.0	118.56	118.01	1.72	132.87	118.17	117.10	147.53	120.36	139.83
North America (705)	110.19	-0.2	97.33	109.44	3.62	110.42	98.20	109.68	113.29	99.78	131.58
Europe Ex. UK (686)	89.83	+0.1	79.34	88.75	3.09	89.78	79.85	88.89	92.99	80.27	109.21
Pacific Ex. Japan (213)	117.49	+0.3	103.78	106.14	4.31	117.14	104.18	106.05	128.27	87.51	162.51
World Ex. US (1875)	133.40	+1.0	117.83	117.41	1.79	132.07	117.46	116.53	146.49	120.26	140.32
World Ex. UK (2133)	124.00	+0.5	109.52	115.08	2.17	123.37	109.72	114.63	131.77	111.77	134.71
World Ex. So. Af. (2395)	124.29	+0.6	109.79	114.88	2.39	123.58	109.90	114.40	132.39	113.26	136.49
World Ex. Japan (1999)	108.20	+0.1	95.57	105.08	3.72	108.04	96.09	105.13	112.43	100.00	132.18
The World Index (2455)	124.17	+0.6	109.67	114.72	2.40	123.43	109.78	114.23	132.38	113.37	136.79

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

SECTION III

FINANCIAL TIMES
SURVEY

As the anniversary of last October's crash draws near, and the IMF gathers for its annual meeting, the world economy is in significantly better shape than might have been expected. The outlook, however, remains clouded by uncertainties, writes **Philip Stephens**

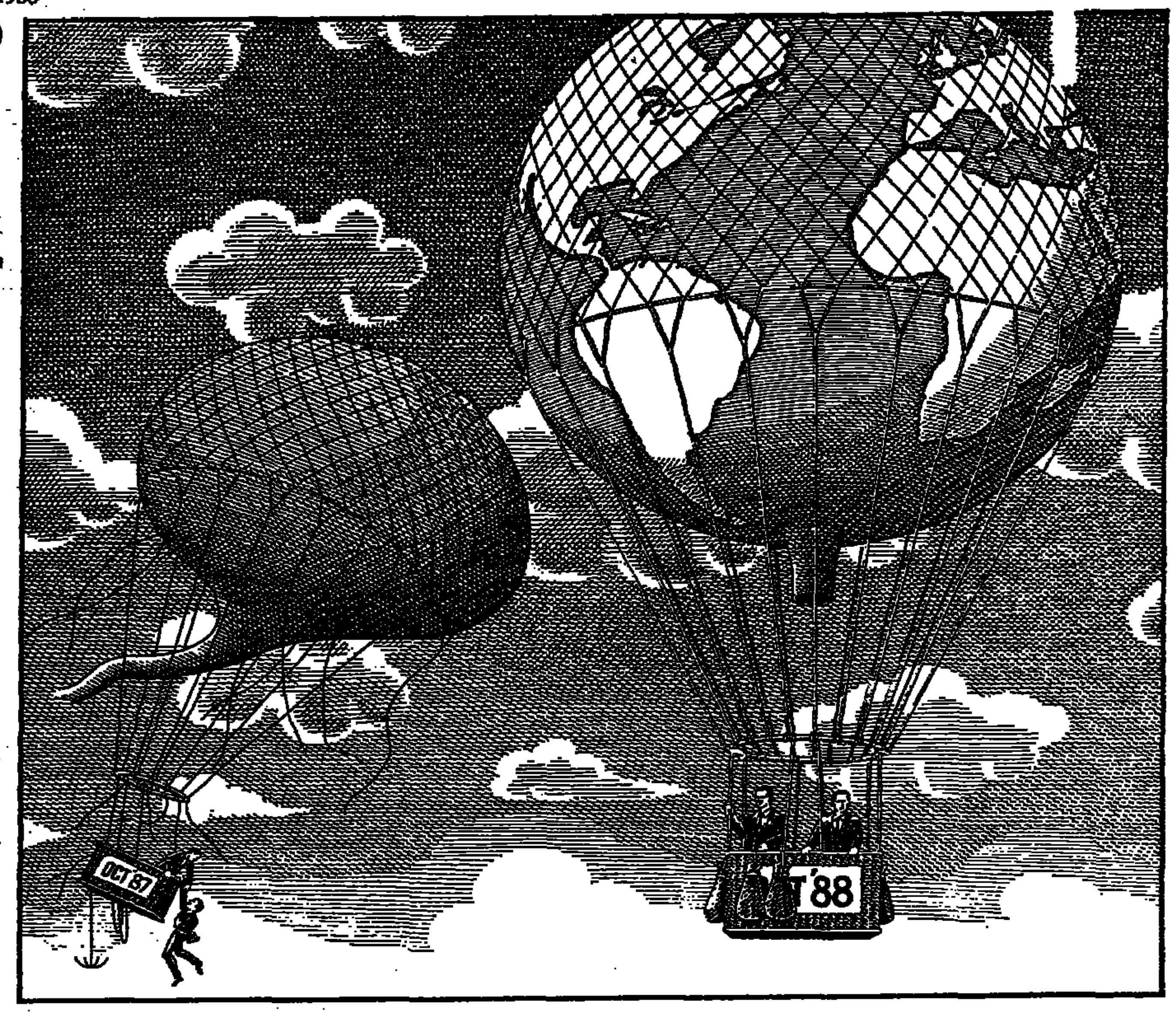


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Illustration: Robin Macfarlan

World Economy

Still flying, one year on

THE PROPHETS of doom have at last been confounded. This will be the message of western governments at this week's annual meeting of the International Monetary Fund.

Far from being pitched into recession, *the world economy* is approaching the anniversary of last October's stock markets' crash with the fastest growth rate since 1984.

If there are concerns on the horizon, they are *about* overheating and inflation not about a re-run of the 1930s.

There are nasty blemishes, of course.

As the Fund warns in its latest World Economic Outlook, international trade imbalances are unsustainably large and *still contain the threat of* renewed disruption on the markets. The emergence of new imbalances in Europe has taken some of the lustre off a visible improvement in the US trade position. Unemployment seems as intractable as ever in most European countries.

The sticking plasters on the international debt crisis often appear to be falling off as fast as new ones are applied. The poorest countries in Sub-Saharan Africa face another fall in *their already pitiful living* standards.

And the fact that economic growth rates of anything over 3 per cent can be hailed as an economic boom perhaps underlines just how far expectations have been lowered during the austere 1980s.

But measured against the expectations at the beginning *of the year, the economic* performance of the industrialised world has surprised even the optimists.

The IMF's own forecasts support the thesis, pointing to *growth in western nations of* about 4 per cent this year and then a gentle slowing to around 3 per cent in 1989. Nine months ago a rate of 2.5 per cent this year and 2 per cent next seemed far more realistic. As recently as April the Fund thought 3 per cent would be *hard to achieve in 1988.*

Instead, Japan's economy is on track to expand by between 5 and 6 per cent and that of the US by 4 per cent. Even Europe is in the unfamiliar grip of an investment boom.

The pattern of growth – with domestic demand in the US growing more slowly than output, and Japan in particular experiencing the reverse – is the one needed to reduce further international trade imbalances.

The developing world will not grow fast enough to keep pace with its rising population and still-massive debt burden, but expected rises in output of nearly 4 per cent this year will at least be an improvement on 1987.

Policymakers in the Group of Seven (G-7) nations will also find time this week to congratulate themselves on the relative calm in financial markets. There have been periodic bouts of jitters but little sign of a second wave of panic selling.

Stock exchanges around the world have yet to recover fully from the shock of last October's collapse. Still-nervous investors in most markets are still keeping a much higher proportion of their incomes in *cash or bonds.*

But the absence of the speculative froth seen in the summer of 1987 may be welcome in that it signals a more resilient foundation against further shocks.

The resumption of private capital flows to the US, with central banks finding themselves sellers rather than buyers of the US currency, has further underpinned confidence.

With the benefit of hindsight it is easy to see why virtually every government and international forecasting organisation misread the likely impact of the slump in share prices.

The world economy ahead of the crash was expanding much faster than anyone realised until six months later, with demand in many countries rising by an annual 5 or 6 per cent in the second half of 1987. That demand has triggered an investment boom in the US, Japan and Europe.

The lagged effect of the 1986 halving in world oil prices, the relatively non-restrictive monetary and fiscal policies being pursued in most industrial nations, and, perhaps, the benefits of earlier deregulation, all played their part.

Against that background, the co-ordinated cuts in interest rates by central banks around the world in the immediate aftermath of the crash balanced the dampening effects on demand forecast by the economic models.

Those reductions have now been reversed, as central banks have decided that inflation rather than recession is now the main threat to sustained growth. The IMF warns that in the US and Britain in particular, the priority must be to moderate domestic spending.

In parallel with the improved economic outlook, the international policy co-ordination process within the G-7 has been strengthened.

The perennial conflicts between national interests and international obligations have *not been eliminated - witness* the transatlantic friction during the summer over the dollar's rise. But, for the time being at least, governments recognise a common priority – to maintain calm on the markets until after the US presidential elections.

The hope is that with a new president installed in the White House another round of policy deals can be struck – with further sharp reductions *in the US Budget deficit at the* pivot.

So should the doomsayers admit that they were wrong all along and join the upbeat bandwagon which will be rolling in Berlin?

Perhaps not yet.

If the world economy's present performance is significantly better than expected, the outlook remains clouded by uncertainties. It is worth remembering that at this time last year – three weeks before the crash – governments were similarly confident.

More fundamentally, no major economy has yet managed to correct a trade deficit on the scale of that faced by *the US without a sharp slow*-down in its economic growth. More frequently, the medicine imposed by financial markets has been recession.

The undoubted improvement in the US trade deficit, and the willingness of foreign investors to finance it this year, does not provide an assurance that the same will be true next. After all it was only a year ago that the world's central banks had to provide around $100bn of that finance.

The IMF's projections suggest that the US trade deficit and the parallel surpluses in Japan and West Germany will remain remarkably stubborn. In 1989, for example, they foresee the US current account gap remaining well over $130bn and the Japanese and West German surpluses sticking at around $40bn and $80bn respectively.

As governments of the G-7 are anxious to stress, the Fund's forecasts suffer from the convention that they assume unchanged policies and exchange rates. That means they take no account of the continuous adjustments in official policies in response to changing circumstances.

What the projections do provide, however, is an indication of the scale of the problem and the risks involved in managing the adjustment process.

Even under the most optimistic assumptions, private investors will have to be persuaded to continue financing large US deficits into the 1990s. With the US facing a massive build-up of its external debt, it is far from assured that those capital flows will continue uninterrupted.

The international policy coordination process has undoubtedly been strengthened over the past few years and Mr James Baker, the former US Treasury Secretary, has left a framework of co-operation which((that?)) might well be developed into a more permanent system.

As yet, however, there is no guarantee that the incoming US Administration will continue to see a coincidence of its national self-interest and what others consider its international obligations. There are respectable economists in both the Republican and Democrat camps, for example, who believe that a further substantial depreciation of the dollar is needed to erode the US trade deficit.

And, as Anthony Harris comments later in this survey, Britain's recent experience – combining a large budget surplus with a sharp widening in its trade gap – has put a questionmark over the conventional wisdom that action to reduce the US budget deficit will necessarily solve its trade problem.

The emergence of regional trade imbalances – the build-up of the surpluses of the newly-industrialised Asian countries and West Germany's large surplus with the rest of Europe – further complicate the picture.

The recent friction between West Germany and France over interest rate policy is a symptom of what may become a far more intractable problem than policymakers on either side are prepared to admit.

Similarly the debt crisis has been contained but far from solved. The present wrangling over Argentina, the sharp deterioration in Mexico's trade position and the re-emergence of serious problems in Brazil have underlined its seeming intractability.

The pessimists may then have been confounded in 1988 but it is too early to say whether they will be similarly confounded in 1989.

THERE ARE few who would claim that the wild gyrations in foreign exchange markets during the 1980s have been deeply rooted in economic logic.

So, on one level, no one should have been surprised by the dollar's surge in value against other major currencies this year.

But it is hard to find an official, economist or trader who can claim honestly to have forecast that this summer central banks would find themselves selling $12bn or so in an, only partially successful, attempt to check the currency's rise.

As the dollar began 1988 at record lows, the best judgement of most central bankers was that the most they could expect to achieve over the rest of the year would be to brake any further falls.

Instead, the US currency has appreciated by a startling 16 per cent against a beleaguered D-mark, by over 10 per cent against the Yen and by roughly the same amount against sterling.

Had the central banks, led by West Germany's Bundesbank and including the US Federal Reserve, not taken a determined stance against a further appreciation those figures might have been significantly higher.

Plausible explanations for the reversal abound. But it remains far from certain whether the US currency has now come to the end of the roller-coaster which, since the start of the decade, has seen its value double and then halve again.

In private, if not in public, most of the central bankers and finance ministry officials attending this year's annual meeting of the International Monetary Fund in Berlin would bet that the dollar's rise is a temporary blip. The unspoken consensus is that the depreciation which began in mid-1985 probably has some way – if not far – to go.

That, however, does not explain the reversal this year. For the foreign exchange markets, the starting point has been the visible narrowing in the US trade gap.

In real, or volume, terms the US trade position has been improving for well over two years. Exports have benefited from both the competitive gains flowing from a lower dollar and from a pick up in economic growth rates abroad. A slowing of demand in the US economy from the frantic pace seen between 1984 and 1986 has dulled, if not staunched, its appetite for imports.

Philip Stephens on the dollar and sterling

Defying gravity

It is only in 1988, however, that those shifts have been translated into a marked improvement in the monthly trade figures which are watched so obsessively by financial markets.

And, typical of their tendency to move in one direction, the markets, having abandoned the long-prevailing view that the trade gap would never narrow, seem convinced that there is no reason why it should not continue to shrink. The fall in the July deficit to $9.5bn, the lowest monthly figure since 1984, reinforced the apparent logic.

The visible improvement in the trade position, however, has not been the only factor propping up the dollar in 1988. Changes in interest rate differentials and a clear shift in the US Administration's attitude to the currency have also played their part.

After narrowing sharply in the aftermath of last Autumn's stock markets crash, the interest rate differential between the US and, in particular, West Germany widened sharply in the early months of 1988. That, and the apparently lacklustre outlook for the West German economy which led to a general weakening in the D-mark, gave investors an added incentive to switch into dollars.

In parallel, the Administration, which had spent much of the previous two years periodically "talking down" its own currency, signalled both with words and with intervention that it was now content to see it stabilise or even appreciate.

The judgement in Washington appears to be that with the November Presidential election approaching, the economic priority is above all to foster a period of stability on the markets.

The US aim has been to preserve stability rather than to target any particular dollar level. Its overriding concern is that a sudden fall in the currency's value ahead of the election could unnerve bond and equity markets and wreck the election chances of Vice-President George Bush.

US policymakers also argue that if the dollar's sharp – and shortlived – fall in the aftermath of the stock markets' crash is excluded from the calculation then the appreciation seen this year is much smaller.

On that basis, the US currency is only about 4 per cent higher against the Yen than a year ago and only 2 per cent stronger against the D-mark.

Looking beyond November, however, there is little confidence among either officials or independent economists that the dollar's decline so far has sufficiently restored the competitiveness of US industry.

The credibility of some of the more pessimistic forecasts – that, for example, a further dollar depreciation of 30 per cent or more will be needed to restore the US trade position to a sustainable path – has been dented.

The pattern of growth in the three major economies – with domestic demand growing much more slowly than output in the US and the reverse occurring in Japan and, to a lesser extent, West Germany – does point to a continuing reduction in imbalances.

But, privately at least, many officials admit that those differentials will not, of themselves, be enough to restore trade positions to sustainable levels.

IMF calculations suggest that the dollar's real exchange rate, measured against the currencies of its major trading partners and adjusted for different growth rates, is now back to the level of the late 1970s.

The problem is that then the US was moving towards rough balance in its current account. Now it must be competitive enough to reverse the largest deficit in history and to finance a massive build-up of external debt. The IMF, for example, estimates that US net external debts will total over $1,000bn by the early 1990s.

That implies that the dollar will have to overshoot on the way down in much the same way as it did on the way up in the early 1980s.

The extent of that overshoot is likely to depend crucially on the success or otherwise of the new US Administration in tackling the US Budget deficit and on whether Japan and West Germany maintain the momentum of domestic growth in their economies.

Any dithering by the new US president over cutting spending or raising taxes could again prompt the markets to impose their own solutions – including a sharp dollar fall – while determined action might pave the way for a much more measured and controlled depreciation.

It is not, of course, only the dollar which has defied gravity in 1988.

Sterling has also bucked, temporarily at least, what most economists believe is a medium-term trend towards depreciation, despite a dramatic deterioration in Britain's trade position.

In the last two months, as the extent of the likely current account deficit has become clearer, the upward pressure has subsided.

Mr Nigel Lawson, the Chancellor, who earlier in the summer forced down interest rates to a 10-year low of 7½ per cent to contain the pound's appreciation against the D-mark, has now pushed them back up to 12 per cent without prompting a surge in the pound's value.

And, with inflationary pressures in the economy already pointing to a rate of price increases of nearly twice the level of Britain's competitors, the focus of official concern has switched to maintaining sterling at close to its recent levels.

But if Mr Lawson cannot afford an immediate fall in the pound's value, it is hard to see how the burgeoning trade deficit can be eliminated without a gradual depreciation over the next few years.

The IMF's calculations suggest that sterling's real exchange rate is now around the levels seen at the end of the 1970s. That, however, marked the start of a period when the balance of payments was beginning to benefit from the huge windfall provided by North Sea oil.

Now Britain faces a current account deficit of over 3 per cent of is gross domestic product at a time when revenues from the North Sea have been hit both by a lower oil price and by falling production.

The UK's budget position is, of course, radically different from that of the US, with this year likely to see a large public sector surplus for the second consecutive year.

But its is hard to escape the conclusion that in both countries the reduction of external deficits to sustainable levels will require the same medicine – some combination of fiscal restraint and a weakening currency.

INTEREST RATES

A roller-coaster ride

WORLD INTEREST rates are back on the roller coaster. Since the beginning of the year they have risen in the US, Europe, Japan and other industrial nations.

The increases follow a steady upward haul through the first part of 1987. This accelerated before October's stockmarket crash, and was then reversed as central banks acted to ensure the stability of their financial institutions in the wake of the share price fall, then turned sharply downwards.

The recent rise has included most leading economies but there have been wide differences. Base rates in the UK have jumped well into double figures; in Japan short-term rates have edged gently higher to little more than 4 per cent.

Last year governments and central bankers had a nasty shock as the roller-coaster reached a peak. High interest rates – and specifically fears of increased US rates – were largely blamed for triggering the share price slump. In the second half of 1988, they must be hoping for a smoother ride.

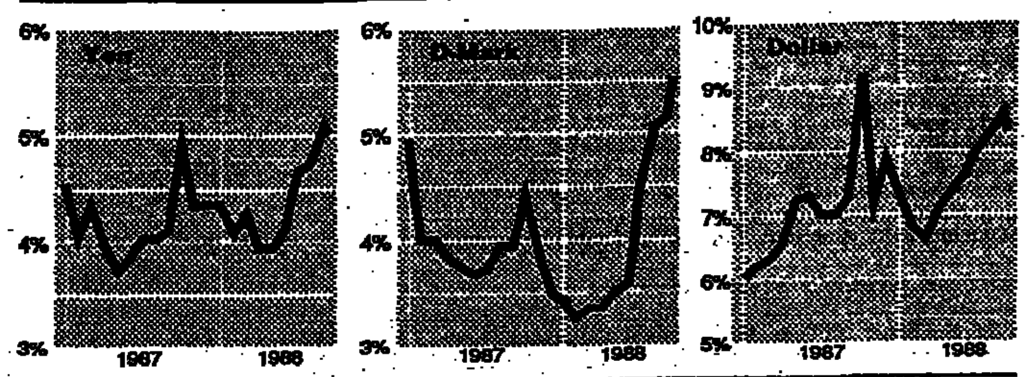
The evidence suggests the authorities are stepping gingerly. In August, the US Federal Reserve took markets by surprise with a pre-emptive rise in its discount rate. European central banks, led by the West German Bundesbank, engineered a rise in interest rates designed to reverse the subsequent weakness of the D-Mark only after heavy and concerted intervention by central banks on both sides of the Atlantic had failed. The Bundesbank raised its discount rate but at the time hinted it would not raise the rate for security repurchase agreements.

The main target of the interest rate policy of the Group of Seven industrial countries – and others – remains similar to last year. Strong economic growth needs to be controlled because of possible consequences for inflation and trade balances.

Inflation fears stem from the brisk monetary expansion in many countries since the crash. In Japan, the money supply has been growing by well over 10 per cent for more than a year. In West Germany, the annual growth rate of M3, the broad money supply measure, has slowed but it remains outside its target range.

The ratcheting up of interest rates represents a considerable U-turn since the period immediately after the crash and a striking change in assessments for the world economy. First, in the immediate wake of the crash, there was talk of recession. Hence interest rates could fall to prevent a repeat of the liquidity squeeze after the 1929 crash and to stimulate activity.

3-month Eurocurrency interest rates



Then, as the confusing mists caused by stockmarket turmoil began to lift, fears in many countries shifted towards overheating and runaway growth. Now officials say there is a "common perception" among leading industrial countries. The balance of risk, it is felt, has shifted away from recession and towards inflation. Higher interest rates will help maintain a tight monetary environment, bearing down on price rises.

This common strategy, it is said, means the world is not entering a period of competitive interest rates – with central banks playing beggar-thy-neighbour over the costs of borrowing.

Nor, however, does it mean domestic considerations will be completely subordinate to the greater international good.

This suggests co-operation may not prove to be as close as central banks public statements suggest. The balance between domestic and international considerations is inevitably a difficult judgement and the dividing line is not always clear.

At the same time, financial markets will continue to focus on the interest rate differentials between countries. A rise in West German rates, for example, immediately triggers speculation that the UK authorities will push base rates higher to maintain differentials.

With economic growth continuing at a rapid pace in most countries into the second half of the year, interest rates around the world are likely to remain high or continue rising. In June, the Paris-based Organisation for Economic Co-operation and Development projected short-term interest rates would, on average, be higher in 1989 than in 1988 in the US, Japan, the UK and Canada. Declines are expected in France and Italy with West Germany little changed.

The trend rise may look uncannily like the rises of 1987, but there are differences. Mr Richard Jeffrey, economist at Hoare Govett, the securities house, said the the 1988 tightening has been far better stage-managed and started earlier.

"The 1987 stockmarket crash gave the world's monetary authorities a vivid display of the chaos that could be caused by careless interest rate changes," he said. "The current approach aims at manipulating sentiment, so as to avoid the catastrophic reversal in opinions that was seen last year."

That the policy is better stage-managed is also apparent from work by Mr George Magnus, international economist at Warburg Securities.

Comparing yield curves (the variation in interest rates between short-dated and long-dated bonds) before the crash and last month he finds that in many leading countries the line has been flattened or even inverted. This, he says, represents a more determined policy stance.

There are changes too in the economic background. Most notably, the US trade deficit shows signs, albeit tentative, of improving, while the dollar is strong. Moreover, the well-publicised discord between monetary authorities in the US and West Germany last year is absent this time around.

The central banks and governments are also likely to tread more carefully when it comes to assessing the economic outlook. Two lessons appear to have been learnt.

First, financial markets are hyper-sensitive to interest rate moves – or even speculation about moves. Suggestions of panic or over-reacting need to be avoided if a backlash from markets is possible.

The second lesson, which negates slightly the policy implications of the first, is that the real economy should not be confused with the financial economy.

Consumers and manufacturers on both sides of the Atlantic escaped largely unhurt from October's stockmarket crash and may have even been encouraged by the temporarily lower interest rates. Hence, a stock exchange in the doldrums should not automatically lead to an accommodating relaxation of interest rates.

Such lessons may seem academic if world stockmarkets prove resilient after October's battering. Many analysts agree share prices are no longer excessively overstretched, making a repeat of October 1987 appear unlikely.

What the central banks need to be wary of, however, is mismanagement, unforeseen events or an over-reaction forced by financial markets. What is meant as a gentle tap on the brakes may then impinge severely on economic growth or inflation. For riders on the interest rate roller-coaster there may then be further scares around the corner.

Ralph Atkins

Peter Montagnon on trade talks

Limited expectations

TWO YEARS into the Uruguay Round of multilateral trade liberalisation talks it would be easy to decry the process as having failed to make any significant dent in the creeping advance of protectionism in the 1980s.

Not only has the US Congress just passed new legislation toughening up that country's already controversial trade legislation. The European Community is also being widely accused of preparing to erect fortress walls around its borders as it gears up for the launch of its single internal market in 1992.

Though some of the flow of invective directed towards Japan in the earlier part of the decade has abated as its currency has strengthened and it has moved to open its market to foreign goods, tempers in international trade politics remain frayed. New worries are surfacing, for example the more aggressive use of anti-dumping procedures by the EC, most recently against imports of Korean video-recorders.

It is against this background that the General Agreement on Tariffs and Trade (Gatt) hopes to revive its stand in favour of free trade with its mid-term review of the Uruguay Round scheduled for Montreal in early December. The meeting is expected not only to assess progress to date, but also to chart a course for the remaining two years of the Round.

Two questions spring to mind as one contemplates the prospects for Montreal. The first is the obvious one of what the meeting will achieve by way of progress in the Round itself. The second is a less palatable one: how relevant will this progress be to the actual practice of trade policy for the remainder of the decade?

Trade experts are generally agreed that the short answer to the first question is that more will be achieved than might have been expected at the outset of the Round. The second question, however, is more difficult.

In the course of its 40-year life the Gatt and its army of camp followers in trade diplomacy have acquired a reputation for being a cloistered community which carries on blithely with its work oblivious to the wars and battles that rage in the outside world. Its Swiss Director-General, Mr Arthur Dunkel, is sometimes seen as a kind of King Canute who is supposed to be able to stem the tide of protectionism but is powerless actually to do so.

Paradoxically, the relatively poor climate in which the Uruguay Round is taking place may for once give the Gatt a chance to break out of this conundrum. Though often at loggerheads in recent years, the main trading powers are also acutely aware of the risks they are running with the trading system as a whole. Strengthening the Gatt has thus become an important antidote to these risks and that in turn means that its potential for helping to enhance the workings of the multilateral trading system has become greater than would have been the case if the Round had been taking place in a generally less threatening environment.

To this must be added a further point. Notwithstanding the drift towards protectionism, the growth in world trade has been unusually robust over the last couple of years. The Gatt itself forecasts that trade volumes will again grow by about 5 per cent this year. Trade has thus become an important factor supporting world economic growth at a time when the overall outlook has often seemed rather fragile. The assumption has to be that policy-makers will not want to throw this advantage away.

None of this means that dramatic progress can be expected of Montreal. More likely is a workmanlike demonstration of technical advance in several key areas of negotiation coupled with expressions of determination by participating trade ministers to build on this progress in the remining two years of the round. Even this, however, depends on the ability of the US and the EC to reach some accommodation of their differing approach towards world agriculture reform. This has increasingly emerged as the key determinant of the mood of the whole negotiation.

The imminence of the Presidential election means there is little chance of a shift in the US position on farm reform between now and Montreal. The US has been calling for an end to all subsidies by the year 2000. The EC for its part insists that this would go further than the original Punta del Este mandate which launched the Round. It is looking for a more gradual and less radical approach which would also have some immediate effect in restoring order to markets in farm products.

No one expects this fundamental difference to be resolved before or during Montreal. The important thing is to agree on possible avenues for tackling agriculture.

Predictably this progress currently appears to have been greatest in the least controversial area, that of strengthening the Gatt itself. Trade diplomats say it should be possible for member countries to agree in Montreal on a commitment to increased ministerial involvement in the Gatt which would give it more clout, on improving co-operation with the International Monetary Fund and other multilateral institutions, and on the role of Gatt in monitoring its members' trade policies, possibly through the institution of regular country studies.

Equally, they are now looking towards improvements in Gatt's dispute settlement mechanism. These would make for speedier judgements, render it harder for members to block the establishment of arbitration panels, and possibly allow for the involvement of the Director-General himself in the arbitration process.

Trade diplomats say agreement on these points would serve as evidence of the Uruguay Round's potential for success. It should also be possible to pave the way for progress in other areas such as trade in services. This is one of the key new areas in the Round and negotiators say they are working towards a blueprint setting out the parameters for further discussions, though much still depends on their ability to link this blueprint to the development aspirations of developing countries.

Areas where progress has been slow since the negotiations started two years ago include trade in textiles and talks on safeguards which allow Gatt members to defend their industries against unexpected and temporary trade problems.

The Montreal meeting is not expected to bring much advance in these particular areas. With a bit of luck, however, it might give the Uruguay Round as a whole the sort of push which would steer it towards a successful conclusion in two years time.

Anthony Harris on the economics of the US presidential election

An unknown route to a pre-ordained destination

IF AMERICAN fiscal policy after 1989 were a detective story, it would make very poor reading, because everyone would know the end before they even knew the characters, let alone the plot. The next Administration will follow fairly closely the path of deficit reduction laid down in the Gramm-Rudman Act. It is extremely unlikely that the Act will be repealed, for to do so would be to invite a major dollar crisis. It is possible, but also pretty unlikely, that the deficit will be cut faster than the Act prescribes. The safest assumption is that we know the bottom line pretty accurately; the interesting questions are what route will be taken to the pre-ordained destination, and what the journey will achieve.

The general assumption in the US is that it is unlikely to make much difference who wins the election. The Vice-President has declared his adamant opposition to raising taxes, while Mr Dukakis has taken a more equivocal position; the sophisticated gloss on this is that it is merely a question of who will be given the blame when they go back on their words. Mr Bush would be dealing with a hostile Congress, which would provide a ready-made scapegoat; he is said to be running for a tax-freezing mandate rather than a policy, so that he can the better put pressure on Congress to restrain spending.

Mr Dukakis is likelier to cite the expected views of the bipartisan Commission which is studying deficit reduction, and is thought likely to conclude that some increase in taxes in the only reliable way to do it.

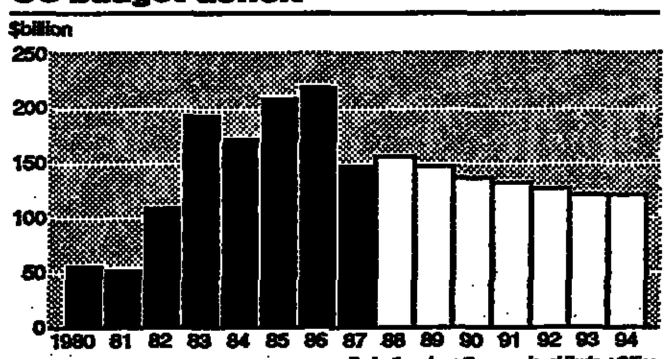
Even if the economy continues to grow faster than the official forecasts suggest, as it has in the first eight months of 1988, Mr Dukakis would need extra revenues. Long-term interest rates, now a major factor in Federal spending, are running nearly 20 per cent higher than the present Administration has forecast, and Dukakis would bring some expensive pledges to office – notably universal health insurance.

Mr Bush's intentions are something of a mystery. He started campaigning as an aggressive upholder of the Reagan tradition, but since he drew ahead in the opinion polls, he has adopted a much more sensitive, mainstream line. There is some reason to suppose that the civic-minded patrician who is now beginning to appear, concerned with education and with the environment, is much more like the true Bush than the raucous Reagan loyalist of the opening days of the campaign. If he means what he says, he too has some expensive ideas – though it is worth adding that his continued support of high-tech nuclear defence might well prove cheaper than Mr Dukakis's programme of modernised conventional forces.

It is because of his spending ambitions that either man would be likely to find the Gramm-Rudman targets quite difficult to hit. There is a strong built-in momentum in the non-discretionary part of the Federal budget, especially in existing health-care commitments and in debt service. The Bush proposal for a "flexible freeze" to hold spending constant in real terms is regarded by most analysts as impossibly demanding. The same analysts, however, generally agree that it would not be difficult to keep the growth of real spending at or below the growth of GDP. Given the fact that fiscal drag is built in to the un-indexed US tax system, this alone would put the deficit on a downward path.

Mr Dukakis would bring some expensive pledges to office

US budget deficit



The social security fund will also provide steady help for some years to come. Thanks to the recent increase in the social security tax, and to the age profile of the population, the fund has now moved strongly into surplus. The surplus will go on increasing by some $10bn a year for each of the next 17 years, to reach an annual peak of nearly $200bn in about the year 2005. Although this is theoretically a self-contained fund to provide for future pensions, it is in practice part of the general pool of revenues and expenditures, and its balance is included in the general government fiscal balance.

But how significant is the US fiscal deficit? It is now part of the international bureaucratic creed that the US fiscal deficit is the cause of all the world's imbalances. This view is held with especial passion in Japan (which has a much larger deficit, in relation to GNP, than does the US). But no British reader is likely to believe that there is a rigid link between the government balance and the external balance: the British government is in surplus, but the current account is in alarming deficit. This suggests that the "twin deficits" beloved of American economic commentary may not be as closely related as their simultaneous birth in the US seems to suggest.

The key question, as the candidates recognise, is the behaviour of private rather than of Government saving. The fall in the personal savings ratio to a trough of less than 3 per cent in 1987 did far more to push the US economy into external deficit than did the rise in government borrowing. A recovery in this ratio to its normal pre-Reagan value of between 7 and 8 per cent would, equally, cure the current account deficit. US economists are quite unable to agree whether such a recovery is likely or not.

The case for optimism rests on demography. It is the age pattern of the population which is generating a surplus in the official social security fund, and it is likely to do the same for private pension funds, which cover a very similar population. The flat trend of the post-Crash securities market could also cause a rise in saving. Employers can no longer expect to enjoy contribution holidays in their pension schemes financed by the book profits of the funds they support.

These are persuasive theories, but the sceptics cite some awkward facts. Personal saving recovered instantly in the wake of the stock market crash, but has shown no trend since then. This is quite consistent with the unexplained long-term tendency for US personal savings to fall - what economists call a "secular trend". The brute fact is that, despite much effort, no economist has yet come up with a theory which will generate even a slightly reliable forecast of American personal saving.

The next Administration is likely, then, to be a period in which the economists refine their models, while the President bites his nails. He will be trying to help the tide to turn; whoever wins, he will find some thick files on tax incentives to encourage saving in his White House in-tray. He should read these files sceptically: past history suggest that such schemes (notably those contained in the 1981 Reagan budget) are much better at diverting savings into new channels than at increasing the total flow.

One thing is clear: neither President is likely to run the risk of an excessively tight fiscal squeeze (though Mr Dukakis might be tempted to get the bad news out of the way, while he can blame the Reagan inheritance). Either is likely to be advised that a recession, even a mild one, is to be avoided almost regardless of cost: it would inflate the Budget deficit, and might provoke a collapse of private credit institutions, and of key Latin American economies.

These fears are surely exaggerated: the US government does not have such a powerful influence on its own economy, nor is ever-growing US demand so vital to the world economy as this analysis would suggest. However, presidents love to be advised to do the things which would make them popular.

NEWLY INDUSTRIALISING ECONOMIES

Newcomers find they are not always welcome

THE AUSTRIAN economist, Joseph Schumpeter, described the capitalist system as one of "creative destruction". Schumpeter had in mind the progressive replacement of old industries and techniques by newer ones. Also important, however, have been the successive waves of newcomers, most recently the "newly industrialising economies" (NIEs).

The standard shortlist of NIEs divides into two groups: four open East Asian economies – the Republic of Korea, Taiwan, Hong Kong and Singapore – and two Latin American countries, Brazil and Mexico. The two groups are quite different: while the latter have people and debts, the former have exports and fast economic growth.

Brazil and Mexico have a combined population of 220 million, a 1986 GDP of $330bn ($1,500 per head), total merchandise exports of a mere $38.6bn in the same year and, at the end of 1986, external debts of $212bn. By contrast, the four Asian NIEs have a combined population of just 69m (with South Korea much the largest, at 41.5m), a combined GDP in 1986 of $219bn (an average of $3,170 per head, varying from Singapore's $7,410 down to South Korea's $2,370) and total gross merchandise exports of no less than $132bn in the same year. Of the four only South Korea has significant external debts, $45bn at the end of 1986. Taiwan is one of the world's leading creditor nations, with foreign exchange reserves of $78bn at the end of 1987.

The growth performance of the two groups of NIEs has also diverged dramatically. The GDPs of Brazil and Mexico grew at average rates of only 2.7 and 0.4 per cent respectively between 1980 and 1986. By contrast, South Korea's economy grew at 8.2 per cent, Taiwan's at 7.3 per cent, Hong Kong's at 6 per cent and Singapore's at 5.3 per cent over the same period.

In their different ways the Latin American and the Asian NIEs have created headaches. The Latin American countries are a worry because for six years they have looked likely to default on their debts. The Asian NIEs are a worry because, it is alleged, their success is responsible for driving the US into debt.

But how important are the Asian NIEs for the world economy? A recent report from the Organisation for Economic Co-operation and Development (OECD) throws some light on the question. In the mid-1960s they accounted for just 0.6 per cent of world market economy GDP and 1.4 per cent of world market economy exports of manufactures. By the mid-1980s these shares had risen to 1.6 per cent and 7.9 per cent, respectively. The aggregate GDP of the four Asian NIEs in the mid-1980s was roughly the same as that of Spain, but their aggregate exports of manufactures were larger than those of France, Italy or the United Kingdom.

In short, the key characteristic of the Asian NIEs is that they are resource-poor economies that depend heavily on exports of manufactures. But they depend on exports because they depend on imports. While the Asian NIEs had merchandise exports of $132bn in 1986, their merchandise imports were $115bn, more than those of Italy.

Why are the Asian NIEs so often viewed as a threat?

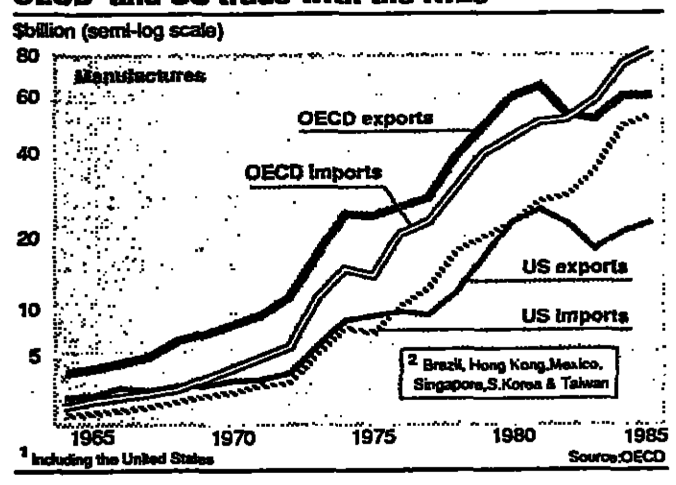
In the first place, as recently as 1970 the exports of the Asian NIEs were a mere $6.4bn, virtually the same as those of Sweden. In 16 years, the value of their exports increased 20 times.

In the second place, NIE exports started with labour-intensive goods, which are regarded as sensitive items for social reasons, the response being protectionism. Over time the NIEs have made dramatic strides in a wide-range of more sophisticated products. The developed country view seems to be that the Asian NIEs, not content with robbing them of their industrial past, now menace their future as well.

In the third place, the NIEs as a group (including here the Latin American NIEs) have become heavily dependent on the US market. In 1985 two-thirds of the exports of manufactures from the NIEs to developed countries went to the US alone. By 1985 the NIEs had a substantial trade surplus in manufactures with the developed countries, more than all of which was with the US (see chart).

Finally, in 1987 the current account surplus of the Asian NIEs reached $30bn, Taiwan's being $18.2bn and South Korea's $9.8bn, with the two city states in rough balance. Even the situations of Taiwan and South Korea were distinct: Taiwan has long had a current account surplus. South Korea, by contrast, was in substantial deficit until 1985.

OECD[1] and US trade with the NIEs[2]



1 Including the United States
Source: OECD

The short term "problem" is balance of payments adjustment, which largely concerns Taiwan and – to a lesser extent – South Korea. Under US pressure, the two governments have been engaged in a ginger liberalisation of trade and financial markets, while also appreciating their currencies.

The Taiwanese dollar appreciated from 40 to the US dollar at the end of 1985 to 28.6 at the end of 1987, where it has since remained. The Korean won appreciated later and by less, from 890 at the end of the second quarter of 1986, to 792 at the end of 1987 and 720 in mid-September 1988. Because these appreciations have been substantially less than those of the yen, exports to Japan from the Asian NIEs have been showing remarkable dynamism (from a low base) in 1987 and early 1988, an important augury for the future. But currency appreciation alone will do little to reduce the overall current account surpluses, which requires substantial increases in domestic demand as well.

Over the long term, one must anticipate continued export success and high ratios of trade to national income. Failing disaster, at some time early in the next century the combined GDP of the four East Asian NIEs will approach that of West Germany, while their combined exports will probably be double the West German level.

Nor are the East Asian NIEs the end of the story. Behind them come such countries as Thailand, Malaysia and – most important of all – the People's Republic of China. Perhaps even the Latin American NIEs will sort themselves out. Mexico, at least, has shown signs of wanting to do so. How tempting it will be for the North Americans and West Europeans to pull up the drawbridge. How futile, too. From behind their protectionist ramparts they will be able to do little but watch the exports of their competitors occupy the global countryside.

The Newly Industrialising Countries: Challenge and Opportunity for OECD Industries

Martin Wolf

WORLD ECONOMY 4

SUB-SAHARAN AFRICA

Achievements of the past 20 years eroded

BURDENED BY an external debt it is unable to service, ravaged by natural disasters ranging from locusts to drought, drained by civil conflicts, and facing the spectre of AIDS, prospects for sub-Saharan Africa have never looked more bleak.

Just over two years ago the gravity of the continent's economic crisis was stressed at a special session of the United Nations, designed to secure greater international support for the economic reform programmes which African governments themselves acknowledged were long overdue.

In the intervening period about two-thirds of the 45 sub-Saharan African governments have introduced, or persevered with, measures advocated by the International Monetary Fund and the World Bank, ranging from devaluation to privatisation of state-owned companies.

The results have been disappointing. Last month a UN report on the continent warned that in spite of the measures adopted by the governments and efforts by the international community, per capita income has fallen a further 4.2 per cent, the debt burden has increased, and the level of imports – which are vital to growth – has declined to the levels of 20 years ago, when calculated on a per capita basis.

The achievements of the 1960s and 1970s have been eroded, particularly in the field of health care. Infant and child deaths are now rising each year, and a study by Unicef estimates that 50 million children are likely to die between 1985 and 2000 from preventable diseases.

Most of the causes of Africa's continuing decline are structural. As pointed out in a report produced earlier this year by a group chaired by Sir Douglas Wass, former permanent secretary at the UK Treasury, export revenues come from a narrow range of commodities with unpredictable world market conditions and volatile prices. The physical infrastructure of most African states is weak and suffers from inadequate maintenance. Population growth is higher than elsewhere in the world. There is an acute shortage of skilled manpower. Civil conflicts take a heavy toll, while in central and east Africa in particular, AIDS threatens to take millions of lives in the coming decades.

There is little prospect that the continent's economic plight will be eased by a recovery in world prices for its main exports. Africa has already seen a sharp decline in real earnings. The index of real prices for non-oil commodities peaked in 1977 and today is around half of what it was then, notes the Wass report. If oil is included, an improvement from 1978 to a plateau between 1982 and 1984 was followed by a sharp fall in 1986 to about half the 1982-4 level.

Prospects for coffee and cocoa – two of Africa's most important non-oil foreign exchange earners – are not encouraging say traders, who point out that last year's average price index was lower than for any year since 1975.

In spite of increases in metal prices earlier this year, there also seems little likelihood of a sustained major improvement, which means that Zambia and Zaire – the continent's leading producers – face continuing hardship.

Many African economists maintain that the continent's recovery remains dependent on these and other factors outside the control of African governments, including the terms of access to Western markets.

Notwithstanding the preferential treatment accorded African countries under the Lome Convention, this access can be difficult.

"With few exceptions," notes the UN report cited above, "non-tariff measures against exports from African countries increased between 1981 and 1986. Cotton, sugar, chocolate, fish, textiles and tobacco are some of the exports that face non-tariff barriers".

Some of the measures are applied progressively on processed commodities, directed at vegetables, fruit, coffee, cocoa, tobacco, cotton, sisal, and discourage local processing in favour of exporting raw materials. As the report stresses, these products are among the most important non-oil exports of Africa: "The removal of escalating non-tariff measures on processed goods would enhance Africa's prospects of increasing value added from exports."

Perhaps the single greatest obstacle to the continent's economic recovery is the burden imposed by an unmanageable external debt. The Addis Ababa-based Economic Commission for Africa estimates that Africa's total external debt was $218bn at the beginning of this year, equivalent to about 44 per cent of the region's GDP.

Debt service obligations for some African countries ranged between 100 per cent and 300 per cent of exports of goods and services. While reschedulings have brought the overall average down to 38 per cent (even higher for some low income countries), it is still a level regarded as incompatible with growth.

Interest payments on external debt were equivalent last year to 6.2 per cent of GDP for Africa, around 5 per cent for the sub-Saharan region: "This burden on the African economy has virtually placed a halt on growth," concludes the UN report.

Measure to alleviate the burden and increase resource flows to Africa have been taken by Western governments and institutions. The Paris Club has provided longer-term and multi-year reschedulings, a number of governments have converted loans into grants, and the World Bank and the International Monetary Fund have expanded their Africa programmes.

In the most important recent initiative, at the Toronto summit last June of the seven largest industrialised countries, the poorest developing countries were offered a package of options on official debt: concessional interest rates from shorter maturities, longer repayment periods at commercial rates, partial write-offs of debt service obligations during the consolidation period, or a combination of the measures.

Though welcomed by African governments, the package falls short of what they say is needed, pointing out that debt service obligations, estimated at $29bn last year, are projected to reach $45bn a year by 1995.

Meanwhile, in real terms, the net resource flow to Africa has been falling. The net flow to sub-Saharan Africa rose from $15bn in 1985 to an estimated $20.5bn last year, according to UN figures, but measured at 1986 prices and exchange rates, net resource flows in 1986 and 1987 were below the 1985 level.

The figures also show a continuing fall-off in direct private sector investment in Africa, dropping from $1.5bn in 1981 to about $400m annually since 1984, while international bank loans and export credits slumped from nearly $4bn in 1980 to $1.4bn in 1986.

Compounding the problem is the fact that there has been a net transfer from Africa to the IMF of nearly $1bn a year in 1986 and 1987.

Many observers believe that the African economic recovery effort is now in jeopardy.

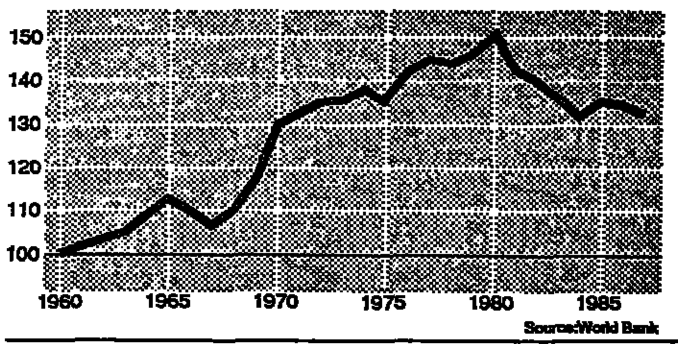
"The questions hanging over these programmes of reform," said the Wass report, "are whether African governments have the determination and ability to persevere in them, and whether external resources will be available to support them in this effort, and be used to good effect.

"What hinges on the answers to these questions, and what is ultimately at stake in the adjustment programmes, is the future welfare of the vast majority of the population of an already impoverished continent."

Michael Holman

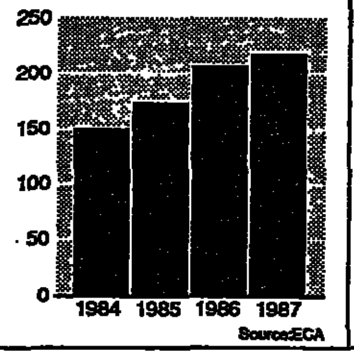
Africa's GDP per capita

in real terms (index 1960=100)



Africa's external debt

$billion



Stephen Fidler on developing countries' debt

Third phase of crisis approaches

THE SIX years since the world debt crisis erupted are conventionally divided into two phases; the dividing line marked by the 1985 initiative launched by James Baker, the US Treasury Secretary, at the International Monetary Fund meeting in Seoul.

Before 1985, the health of the industrial world's banking system was seen as the prime concern. The measures introduced with the collaboration of most debtor countries were designed to shore up the tottering edifice of the banking system and usually entailed severe IMF-inspired austerity measures in the countries themselves.

The strategy outlined by Baker recognised that the debt crisis was not a short-term phenomenon and that, because its solution would take years to resolve, the prospect could not be envisaged of long-term austerity in the debtor countries. Salvation from the debt crisis should come through growth.

The IMF would be there to encourage the correct economic policies, which would be supported by flows of new funds from the multinational financial organisations and the commercial banks.

Three years after Baker, it is clear that his approach has brought the international financial system to the point where, although not immune from disaster, it has been significantly fortified. It is also abundantly clear that the scale of funding envisaged from the developed world has not been forthcoming. Indeed, the developing countries have been returning capital to the industrial world to a degree which many observers believe is untenable, particularly given the explosiveness of debt as a political issue in many debtor countries.

These two critical elements are behind expectations that the third phase of the debt crisis may be around the corner.

What will help to shape it are the large provisions made by US and other banks last year to cushion them against possible loan losses. These provisions may be the most significant legacy of the Brazilian debt moratorium declared in February 1987, and subsequently abandoned as the Brazilians returned towards a co-operative approach with the banks and the IMF.

The banks have objected to the view that provisions make debt forgiveness – defined as across-the-board debt relief – more likely. However, it has opened up the field for voluntary debt reductions, under which debtor countries can obtain significant benefits from the discounts available on their loans in the fast-growing secondary market.

Some bankers like to characterise the debt reduction schemes – debt-for-equity swaps, debt-for-bonds swaps and the like – as merely an addition to the growing "menu of options" that have become available to countries seeking new finance or to reschedule their obligations. Nevertheless, the voluntary recognition of losses by banks on significant amounts of loans has pushed this range of options into another dimension.

Two years ago, the young market in debt-to-equity swaps was viewed as only a peripheral issue to the debt crisis, its relevance limited to nibbling away at the edges of the problem. Now bankers are saying that debt reduction should be central to its resolution, along with other elements, including the continued provision of new money.

Brazil's advisory committee, for example, believes that by the end of 1993, debt reduction could lead to a fall in Brazil's debt from $66bn at the start of this year to $47bn by the end of 1993.

This is not motivated, of course, by a new sense of international responsibility among commercial banks, but by a change in their perception of self-interest brought about by the provisioning of 1987.

Nevertheless, it still remains to be seen whether the scale of reduction now taking place in some banks' portfolios is compatible with the continued provision of new money.

However, the so-called menu of options is increasing the ways in which banks may contribute new money. Links of new loans with World Bank financings, for instance, mean that banks in some countries do not have to provision on the new money to the same extent they have on the old. New money lenders can now get enhanced rights for swaps into equity or bonds, or lend new funds as trade financings or "on-lend" to borrowers within the country.

Indeed, all of these features were included in the new Brazilian package, and if one is put together for Argentina this year, most bankers believe another option, that of interest capitalisation, will be added – a move for which European banks have been pressing for some time.

Both commercial banks and the multilateral organisations are criticised for not doing enough. For their part, the multilateral organisations are attempting to answer this, although not to everybody's satisfaction. The IMF has introduced an Enhanced Structural Adjustment Facility aimed at lengthening the horizon of IMF programmes, while the World Bank has moved to increase its role in enhancing commercial lending.

Mr Barber Conable, the president of the World Bank, has also said that he believes the Bank can help more on debt reduction schemes, although that process does not seem to have advanced much since he first expressed the view last March.

There are expectations that the next significant government initiative on the crisis may come from Japan.

It proposed in Toronto that the IMF should set up a special account into which indebted countries would deposit resources that would guarantee debt service payments on newly securitised and restructured debt.

The idea has apparently been put on the back burner at least until after the elections in the US, where a new administration could well decide that it was time to address the debt question anew.

Indeed, there is still more the governments of the market economies can do both individually and collectively to ameliorate the debt problem and to improve the prospects for the type of solutions outlined above.

While most of the big debtors still appear to view a co-operative approach as the best way of tackling their debt problems, there are signs that their patience with the process might be running out.

Developing Countries: Medium- and Long-term Debt and Debt Service ($bn)

	All developing countries			Highly indebted countries[1]			Sub-Saharan Africa		
	1980-85	1986	1987[2]	1980-85	1986	1987[2]	1980-85	1986	1987[2]
Debt	604.2	884.9	886.0	299.7	420.8	440.6	58.3	89.6	100.3
Official	324.0	357.4	353.0	83.1	98.3	102.9	34.0	59.0	65.9
Private	280.2	527.5	533.0	216.6	322.5	337.7	24.3	30.6	34.4
Debt as % of GNP	29.3	41.2	38.5	36.9	55.2	56.9	34.8	61.6	79.0
Debt service[3]	94.0	116.9	123.4	50.3	48.7	46.7	6.5	7.1	7.1
Interest	46.3	55.6	56.0	28.4	30.0	28.1	2.8	2.8	3.1
Official	8.7	15.3	17.0	3.0	5.5	6.5	0.8	1.4	1.6
Private	37.6	40.3	39.0	25.4	24.5	21.6	2.0	1.4	1.5
Amortisation	47.7	61.3	67.4	21.9	18.7	18.6	3.7	4.3	4.0
Official	10.3	18.0	21.0	3.8	6.6	7.0	0.9	1.6	1.5
Private	37.4	43.3	45.8	18.1	12.1	11.6	2.8	2.7	2.5
Debt service as % of exports of goods and services	15.6	25.2	23.8	32.9	37.6	31.9	15.7	22.0	21.5

NOTE: Covers public and publicly guaranteed and nonguaranteed private debt for the 109 countries in the World Bank's Debt Reporting System.

1. Includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ivory Coast, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia; 2. Preliminary (end June 1988 data); 3. Cash basis, that is, actual payments.

Source: The World Bank

COMMODITY PRICES

Inflation anxiety subsides

FEARS THAT the rise in world commodity prices in the first half of the year would give a sharp inflationary push to the developed economies have receded since midsummer.

By mid September average commodity prices expressed in Special Drawing Rights (The International Monetary Fund's reserve currency) had declined by 16 per cent from the peak in early June.

This fall, which has been surprisingly consistent across a wide range of primary commodities from oil to copper, followed a near doubling of average prices (in SDRs) in the previous 12 months. The obvious question raised by the summer's switchback is whether it represents just a temporary pause in a long-awaited recovery in world commodity prices or a re-assertion of the depressive forces which have been acting on most raw materials markets for more than a decade.

Average real commodity prices (after allowing for inflation) are now some 30 per cent below their level at the beginning of 1979. Although different markets have been subject to many diverse influences, in both the short and long term, no important commodity has been exempt from the general trend. The depths of the decline, to prices which by the end of 1986 were the lowest in real terms for 50 years, has surprised many commentators and forecasters, although the general reasons for it are now well understood.

New technologies, which have improved cereal yields and cattle production; better farm machinery and mining equipment; and new methods for extracting ores have all contributed in a period when over-capacity, created during the euphoric years before the first oil crisis, created a fierce squeeze on costs.

At the same time consumers in the industrial world became used to a condition of glut and low prices which enabled them to reduce stocks to levels which they would have considered highly imprudent in the mid 1970s. Computerised stock control, more efficient manufacturing techniques, and a general drive to reduce the materials content of goods, all contributed.

The markets for a number of important commodities like copper and tin were hit, in addition, by the increased substitution of plastics, ceramics and glass.

All these factors conspired to depress commodity markets at a time when the world economy was, in any case, reeling from the effect of the oil crisis of 1973-74, reinforced by the second rise in 1979. Then the spectacular rise in the dollar from 1980 to early 1985 raised the price of dollar-denominated commodities to all consumers outside the dollar area, and therefore helped to choke off demand, so put an even further downward pressure on prices as expressed in dollars.

To these powerful forces must be added the perverse behaviour of many primary commodity producers in third world countries which tried to offset lower dollar prices by increasing output, and in some cases even expanding capacity.

As local currencies declined against the dollar, this policy seemed justified to many producers because, for a while at least, depreciation against the the dollar gave them higher receipts in their own currencies.

It is not surprising, therefore, that the adjustment to lower demand and higher productivity for most primary commodities took a long time. However, by 1985, more than a decade after the first oil shock, prices were showing little sign of recovery.

This was not only worrying for Third World producers. It was also surprising. The long-awaited depreciation of the dollar, which fell by 38 per cent between the end of 1984 and the end of last year, could be expected to stimulate demand outside the US and help to put upward pressure on the dollar price of all major commodities.

However, the recovery was very slow in coming. It was not until the second quarter of 1987 that prices in general showed a clear upward trend, which accelerated through into the middle part of this year. This led to growing anxieties that the rise in base metals prices particularly, might be signalling that the growth of the world economy was beginning to run into inflationary bottlenecks.

Was this the end of the long deep slide of world commodity prices, signalling a return to some new balance, wherever that might be? Even when prices were rising, most of the major international economic institutions were saying that it was unlikely to be sustained, partly because the potential new sources of supply are available at relatively low cost for most metals and partly because the the fly-up in prices was an expected reaction to the earlier fall in the dollar.

For example, the North-South Institute in Ottawa concluded in a paper this spring that "most commodity prices are unlikely to recover over the short or medium term". It pointed out that there is clear evidence that the real price of non-fuel commodities exported by the Third World has been falling since the 1950s.

This analysis is broadly supported by the World Bank which has estimated that commodity prices other than fuel may rise by only about 8 per cent by the year 2000. This would mean a halving of real prices during the second half of the 20th century.

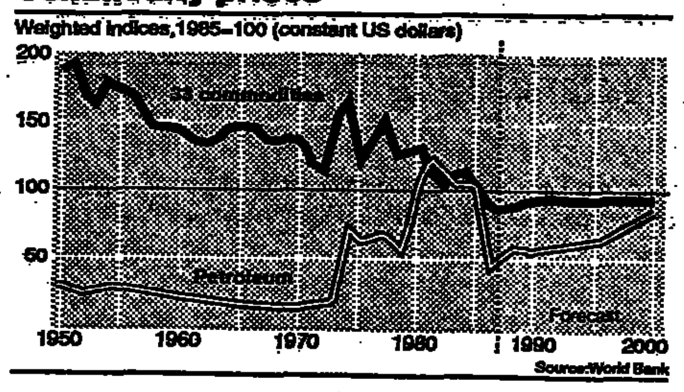
The International Monetary Fund's most recent analysis of world commodity markets concludes that real prices are likely to remain roughly unchanged over the next few years.

This would suggest that commodity prices are unlikely to be an engine of inflation in the industrial world in the immediate future, particularly if oil prices remain weak as many in the industry are now predicting. On the other hand, underlying inflationary pressures generated in western economies by excessive public borrowing, or by wage awards unmatched by productivity increases, are unlikely to be disguised by falling commodity prices from now on. The free ride at the expense of Third World producers is probably over.

Max Wilkinson

Commodity prices

Weighted indices, 1985=100 (constant US dollars)



Michael Prowse on dramatic demographic changes in the industrialised countries

Fear of an ageing population is largely irrational

WHITE HAIR, wrinkles and walking sticks: this is what the future seems to hold for the rich industrialised countries. A recent study* by the OECD indicates that the proportion of people aged 65 or over in member *countries will rise from* 12 per cent in 1980 to about 22 per cent in 2040. In West Germany and Switzerland, the geriatric wards look set to burst: the proportion of elderly people is expected to reach 28 per cent by the middle of the 21st century.

These are dramatic changes which will alter the social as well as economic character of the developed world. Fortunately perhaps, the bulk of the ageing will occur in the next century. Indeed, in some countries, such as the UK, the relative size of the elderly population will shrink slightly during the *1990s. But there are exceptions* to this rule. Japan, which starts with a relatively youthful population, will see the proportion of elderly people rise by a staggering two-thirds between 1980 and 2000.

The ageing is caused by a combination of falling fertility and mortality rates. Neither *can be forecast with great precision.* On mortality rates, the main risk is of underestimating increases in life expectancy. Advances in medical technology and the adoption of healthier lifestyles could result *in significantly longer life*spans than have been the historical norm.

A *special "low-mortality" projection* by the Organisation for Economic Co-operation and *Development suggests* that more than one person in three in West Germany could be 65 or older by the middle of the 21st century. The elderly would be only slightly less dominant in the UK and US, where the over-65s would account for about 29 per cent of the population.

Fertility rates are even *harder to predict.* The baby-boom of the post-war years took demographers by surprise because it ran counter to a trend decline in birth rates. In its central projection, the OECD assumes that irreversible changes in the economic role of women and the greater availability of contraceptives rule out a return to the high fertility rates of the baby-boom years. Equally, it does not believe today's very low fertility rates are sustainable, not least because they are below the level required to replace the population.

But if fertility rates fail to recover and the industrial countries remain unmoved by the prospect of a shrinking *population, the ageing projec*tions could turn out to be conservative.

Rate of GDP growth necessary to finance increases in social expenditure due to demographic factors

	Projected increase in social expenditure 1980-2040 (1980 = 100)	Share of social expenditure in GDP in 1980 (%)	Average annual GDP growth required to maintain social expenditure share constants (1)
Australia	207	18.6	1.22
Belgium	102	38.2	0.03
Canada	187	21.0	1.05
Denmark	88	34.9	−0.22
France	128	28.3	0.41
Germany	97	30.8	−0.05
Italy	107	26.9	0.11
Japan	140	16.9	0.56
Netherlands	121	35.5	0.32
Sweden	109	32.5	0.14
United Kingdom	110	22.0	0.16
United States	165	20.7	0.84

(1) Average annual compound growth rates.

Source: OECD.

The ageing in prospect has provoked much hand-wringing in finance ministries around the world. As the retired popu*lation grows relative to that of* working age, public expenditure on pensions and health can be expected to rise and the tax base to narrow. Fears that the strains will become intolerable have already caused several countries to scale back pension promises. The Thatcher Government, for example, has reduced substantially the benefits available under the state earnings related pension scheme.

Such fears, however, are largely irrational. In the first place, great savings can be made in some parts of social budgets as populations grow older. Expenditure on education and child benefits, for example, can be expected to decline substantially.

The OECD calculates that in West Germany and Denmark, total social spending on account of demographic factors will *fall* between 1980 and 2040 because the rising cost of pensions will be more than outweighed by savings on education, family benefits and health. The savings on health are possible because the absolute numbers of old people in these countries are not expected to rise much: the big increase in the percentage of elderly people occurs because the number of younger people is projected to decline.

In a country like Britain, the rise in expenditure on pensions and health implied by demographic change is expected to exceed the savings on family benefits and education, but not by much. Paradoxically, the countries that face the largest increases in social expenditure are those that are making the least fuss. Australia, Canada and the US will face upward pressure on all the main social programmes because the rise in their elderly population will not be offset by declines in the number of youngsters.

The real issue, in any case, is not whether social spending is likely to rise, but whether it can be readily financed. Between 1910 and 1980, the proportion of elderly people in the UK nearly tripled. But it would have been foolish for the Edwardians to have worried about the financing of today's pensions. That has been taken care of by growth of output and productivity.

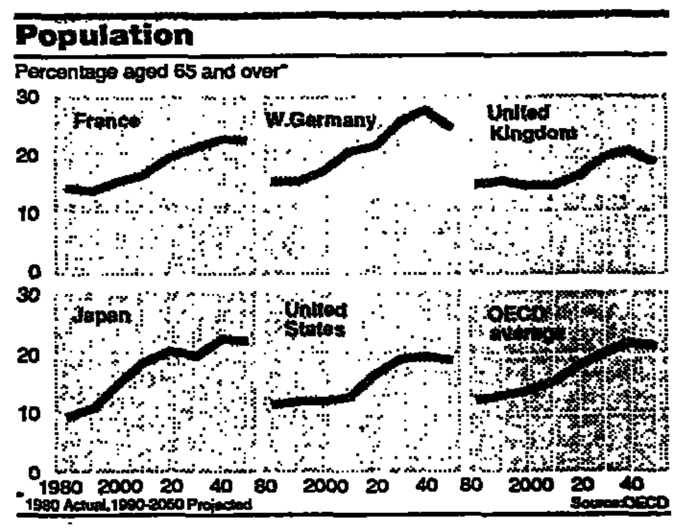
The same should be true of the future. The OECD has calculated the rate of annual GDP growth necessary to finance increases in social expenditure on account of population changes. This ranges from minus 0.05 per cent in West Germany to 1.22 per cent in Australia. In the UK it is a rather undemanding 0.16 per cent. Demographic factors, of course, will not be the only source of upward pressure on social budgets; governments will also want to raise the real level of benefits. But these calculations suggest the problems are manageable.

Nor should OECD countries underestimate the advantages of an ageing population. In many countries, the scarcity of young workers should lead to a marked tightening of labour markets. By the turn of the century, hard though it is to imagine today, even unskilled labour may once again be a prized commodity. And given that 30m people are currently jobless in the industrialised world, the savings on unemployment benefit could prove quite handy.

But perhaps *the most comforting thought for those who* worry that population ageing will threaten the dynamism of the capitalist system is that it is entirely voluntary. There is a limitless source of keen young workers (and capitalists) in the Third World. They would be only too pleased to pay taxes to support the idle elderly in OECD countries – *that is, if the rich countries* would only relax their immigration controls.

**Ageing Populations. The social policy implications. From OECD 2, Rue Andre-Pascal, 75775 Paris Cedex 16, France.*

Even medical advances may fail to take industrialised countries regularly this far: Mr Mevlud Dawitadze, left, from Georgia in the Soviet Union, on his 131st birthday with two of his sons



UNEMPLOYMENT

Traditional links obscured

NO MATTER how fast the economic growth rate or how bright the inflation outlook, unemployment in many leading industrial countries – particularly in Europe – remains stubbornly high.

Figures from the Paris-based Organisation for Economic Co-operation and Development put the number of jobless in member countries at 30m last year, or almost 8 per cent of the workforce. That was only 1m less than in the previous year. OECD estimates point to a similar size fall this year before rising in 1989.

There are wide variations between countries. In Spain the unemployment rate last year was more than 20 per cent; in the UK it was more than 10 per cent, according to the OECD.

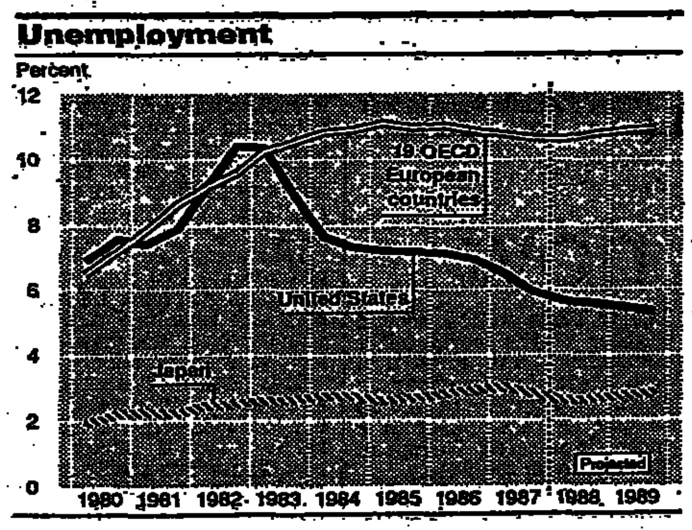
In contrast, the US has enjoyed a relatively impressive fall – from more than 7 per cent in 1985 to the current rate of nearer 5.5 per cent. During the same period, Japanese unemployment has remained below 3 per cent.

At first sight, unemployment's resilience may seem to defy what was once accepted as economic logic. In many countries the traditional link between rises in output and falling joblessness seems to have been severly weakened, if not broken – especially if the effect of government job training schemes and part-time employment is stripped out.

The steep rise in unemployment in the early 1980s can be blamed on the second oil shock, monetary tightening and economic recession. Yet, a few years on, the process in many countries seems irreversible.

The outlook for the jobless, therefore, may not appear bright even if growth continues at a relatively fast pace.

In practice, of course, it is not so simple. The relationship between jobs and output growth has become obscured by demographic trends and, perhaps more importantly, by structural shifts within the major industrial economies.



These factors not only provide a possible explanation for the resilience of unemployment but also some clues as to why there have been stark difference between unemployment rates in Europe compared with the US and Japan throughout the 1980s.

Looking at employment growth (which, with all the many other factors held equal, should match falls in unemployment) the link with economic activity seems clearer. The average for OECD countries in 1986 and 1987 is employment growth rates of 1.5 per cent and 1.6 per cent respectively.

Many of the fast growing economies have been achieving bigger employment increases than this. Spain achieved growth rates of 2.3 per cent and 3.2 per cent in the same two years – although job creation schemes may have played an important role. Similarly, the UK saw employment grow by 0.6 per cent in 1986 but 1.8 per cent in 1987. The US saw above-average employment growth in both years.

Nevertheless, it would be misleading to assume economic growth leads automatically to job creation – the relationship is muddied by the many structural and demographic factors.

This appears to have been recognised in many of the leading industrial nations. Traditional solutions to unemployment (for instance, simple demand expansion) have been spurned in favour of policies directed at overcoming demographic and structural obstacles.

In his opening address to the European Economic Association in Bologna in August, Mr Lamberto Dini, director general of the Bank of Italy, highlighted many of the possible structural causes of unemployment in Europe.

He said: "While it is difficult to deny that fiscal contraction, the anti-inflationary monetary policies of the 1980s, and the second oil shock had negative effects on employment in Europe, it does not necessarily follow that expansionary macroeconomic policies can be used indiscriminately to fight an unemployment problem deeply rooted in structural and regional imbalances."

Of the problems governments face, four strands stand out.

First is the effect of productivity changes. In the depths of the recession, the shakeout in industry around the world was largely blamed for rising unemployment.

According to textbook economics, rising productivity should correct the jump in *unemployment as unit labour* costs fall. In practice this does not seem to happen.

In its June outlook for the world economy, the OECD noted that in Japan hours of work, not employment, typi*cally bear the brunt of cyclical* fluctuations. In other countries, productivity increases, rather than reducing the cost of employing labour, have been absorbed by higher earnings.

In a paper published by the *Centre for Labour Economics* at the London School of Economics, Professor Christopher Pissarides says, bluntly, that neither changes in productivity nor in aggregate demand affect unemployment in the *longer term.*

"A model that claims to have a plausible theory of unemployment must be consistent with the observation that over long periods of time, changes in labour productivity are reflected in changes in wages and not in changes in unemployment," he argues.

The second, more general strand, is the effect of the structural changes. A number of factors should be included here.

Perhaps most notable has been the shift away from manufacturing towards service industries. This involves not only skill switches, but changes in employment behaviour. Manufacturing employment across Europe is dominated by males in full-time jobs; service industry jobs are often filled by females working part-time. In the UK, a large chunk of employment growth in the *1980s can be attributed* to part-time work.

There are also problems of the downward rigidity of real wages (which explains why wages have tended not to fall as unemployment has risen), lack of flexibility in regional and sectoral wage differentials and distortions caused by unemployment benefits and minimum wages.

Third is the growth in the labour force. In 1987, the OECD *labour force* grew by 1.2 per cent, reflecting a rise in the working population and increased participation rates.

Looking ahead into the 1990s, population trends will be more favourable in most lead*ing countries.* In particular, the sharp decline in birth rates in many European countries in the late 1960s and 1970s will begin to effect the size of the working population.

In some countries demographic trends could lead to significant falls in unemployment even without any rise in economic activity although this will depend heavily on the nature of flows of labour into and out of work. Participation rates could also rise, offsetting any gains.

The final consideration is the problem of mis-matches in the labour market caused by the structural factors. There also appears to be a consensus among economists that measures to free up the labour market are needed.

It is towards these difficulties that government training schemes are directed. If the sharp rise in unemployment in the early 1980s is to be reversed, governments may find building on such supply side initiatives is a pre-requisite for converting sustained, or stimulated, output growth into job creation.

Ralph Atkins

WORLD ECONOMY 6

Outlook for the world's major economies: the US

No need for massage or disguise

IT IS a standing joke in the financial markets that everything in the US economy will look rosy – until November.

Until recently, the theory seems to have been something like this. The Japanese, who are known to favour a Republican victory, would prop up the dollar; the Taiwanese, who have still stronger prejudices, would help the US trade account with special imports; and the official machine in Washington would manage to hold back any bad news until the voters were safely home.

Well, the Japanese did support the dollar for a time, and the Taiwanese did import nearly $1bn of bullion (but more to appease Congressional anger about their bilateral surplus than to massage the US numbers). All the same, it has become clear since mid-year that the US economy needs neither massage nor disguise. It is moving towards balance, both externally and structurally. There is still a very long way to go, but it is moving faster, and with less trouble, than any but the most optimistic expected, and it is maintaining a brisk rate of growth in the process, too.

Those who used to worry about a looming recession, or a bottomless pit of foreign debt, now worry mostly about overheating. Meanwhile, the dollar has recently needed restraining rather than supporting, and the bureaucracy has produced figures on earnings growth and poverty which are making good propaganda for the Democrats.

The main cause, both of the improved trade balance and of the revival of manufacturing, has been a quite remarkable surge in exports. Since the tide turned just under a year ago, US exports have been growing at an annual rate of nearly 40 per cent, and imports at a rate of 6.2 per cent. Even if the export growth rates halved from now on, the trade balance would improve rapidly.

Many forecasters still predict that the current account will shortly become stuck at about $130bn a year, but this conceals some rather gloomy trade assumptions. The burden of debt service is growing at about $10bn a year; the merchandise balance has been improving at nearly four times this rate. Only a strong revival in imports, the growth of which have slowed almost to a standstill in the last nine months, would alter this picture drastically. The current slowdown in consumer demand, which was recently reported by the member banks of the Federal Reserve as "sluggish" in most regions, makes this unlikely.

Fears of overheating may also be overstated. Some continuous-process industries – notably steel, chemicals, paper and bulk textiles – are near the limits of capacity. Their investment spending has risen by an average of 20 per cent, but shortages will persist for some time, aggravated by quota or "voluntary" restrictions on imports.

Most other industries, however, are achieving improving productivity, and could, in any case, meet higher demand by working extra shifts. They are situated mainly in areas that were until recently depressed, and labour is still available – some of it skilled labour still idle since the 1982 recession. There has been some wage acceleration, it is true, but it has been mainly in unskilled, entry-level jobs; manufacturing unit costs are still reported as falling.

Finally, foreign investment is playing an increasing part in supporting both growth and an improved trade balance. Many European and Japanese multinationals are moving production for the US market onshore, with enough spare capacity to supply regional export markets. This provides employment and technology, and a widely-admired model for US industrial management, as well as painless finance for part of the remaining trade deficit.

Despite this almost idyllic picture of growth led by exports and investment, there are serious underlying weaknesses in the US economy. The financial system is fragile, and the fact gets a lot of publicity. The human and material infrastructure, too, is in poor shape.

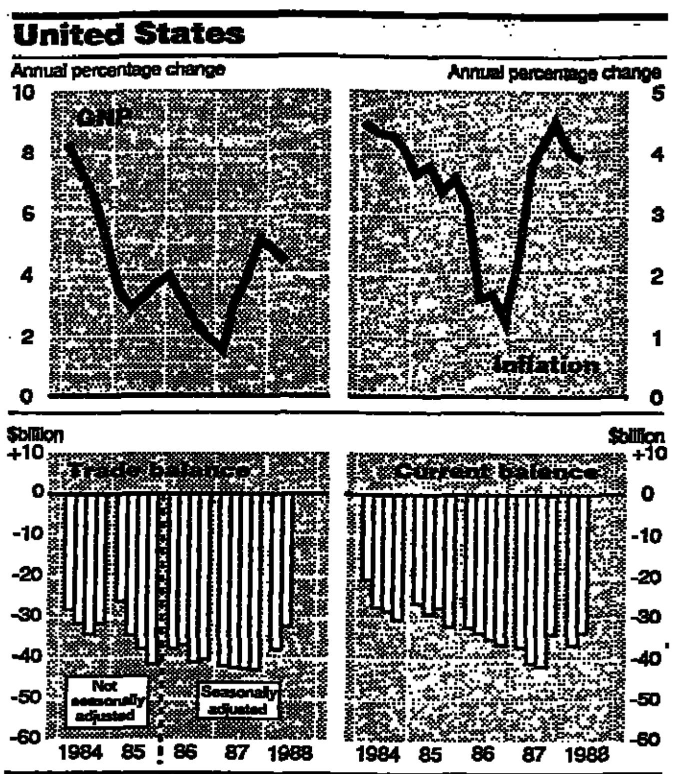
Both parties in the general election talk of drastic improvements in education, after surveys which show US school leavers and graduates far behind their Japanese and European opposite numbers in numeracy, general knowledge and, indeed, basic literacy. Even if they are as good as their promises, the economy has an ill-schooled generation to absorb.

The drugs problem is getting badly out of hand, especially among disadvantaged city youths. The coastguards and police are now seizing huge quantities of drugs, but there is still a glut. Promises of stronger patrols seem unlikely to do any good as long as whole Latin American economies are dependent on the trade, and many youths see it as the quick road to wealth.

The physical underpinning of the economy is also in bad shape. The power utilities are badly short of capacity since nuclear power has become socially unacceptable. The voters demand clean air and water at a time when many city sewerage systems are overloaded and drastically under-maintained, and the road and rail networks also need much investment. This backlog of human and physical investment is likely to prove a far more obstinate problem than any passing difficulties with trade and the dollar.

Anthony Harris

United States



JAPAN

Growth continues

THE JAPANESE economy might well be considered one of the wonders of the world. It responds rapidly to radically changed circumstances without producing inflation or undue pain to those affected by the changes.

Three years have passed since finance ministers of the leading industrialised countries agreed at the Plaza Hotel in New York to encourage the yen to rise against other currencies, especially the dollar. Since then, the yen has doubled in value against the dollar, initially causing enormous anxieties in many sectors of Japanese industry.

But today the Japanese economy, far from being hurt by the strong currency, is growing at rates not seen since the early 1970s and is virtually free of inflation. Most economists in Tokyo are forecasting real growth of slightly better than 5 per cent in the current year following a 4.3 per cent rise last year.

The high growth rate is almost certain to continue next year, even if the Government has to intervene to make it happen. The country continues to have an unsustainably high trade surplus, and one way to bring it down is to suck in imports through buoyant domestic demand.

Indeed, the biggest worry about the Japanese economy these days stems from the surprising resurgence of exports in recent months. Until last spring most economists were confident that a trend of declining trade surpluses had been established. The high yen was dampening exports while booming domestic demand was causing an unprecedented surge in imports.

However, exports then began growing again, reflecting a number of factors that had previously been underestimated. For one thing, Japanese manufacturers had been more successful than expected in adjusting to the high yen, taking advantage of lower imported raw material costs and a political climate which permitted some rationalisation.

Another factor is that many manufacturers now have world supremacy in a number of popular new products and so have been able to pass on the increases in their costs due to the high yen without loss of sales.

Laptop computers and laser printers are two outstanding examples. Also, the US economy has remained stronger than expected, thus drawing in imports at a high rate.

This continued strength in external demand, coupled with buoyant domestic demand, has led to a second concern that capacity restraints will soon be reached, putting pressure on prices. There are plenty of statistical indicators to back up this concern:

- For the past three months, the number of job offers has exceeded the number of job seekers;
- Overtime working has averaged nearly 20 hours a week for most of this year among manufacturing companies;
- The operating rate in manufacturing industry has continued to be high.

Despite these indicators, inflation has so far remained very low. Wholesale prices dropped 1 per cent in August, putting the wholesale price index at 87.1 (1985=100) while the consumer price index in July stood at 101.1 on the same base. Up to now, inflation has been kept in check mainly by the virtuous effect of the high yen on import prices and by moderate wage demands from labour.

There is also, as the discrepancy between wholesale and retail prices suggests, considerable potential for the retail sector to absorb cost increases rather than pass them on. Similarly, when Japanese prices rise these days, they tend to be damped down quickly by increased competition from imports.

However, with supplies of both labour and some important imported commodities, such as pulp, chemicals and non ferrous metals becoming tight, inflationary fears now seem more substantial than they were.

Until recently, there was also a concern that the strengthening dollar would contribute to inflation in Japan, but that fear seems to be receding.

One reassuring sign is the strong trend of private sector capital investment, which should lead to an easing of any shortages in manufacturing capacity that may develop in the near future. According to a recent survey of 1,571 companies by the Nihon Keizai Shimbun, Japan's leading business newspaper, capital spending is likely to rise 13.1 per cent this year compared with only a 1.1 per cent rise last year.

This forecast and others like it, are buttressed by the July figures on machinery orders, showing a 31.9 per cent year on year rise in the private sector, excluding shipbuilders and electric utilities.

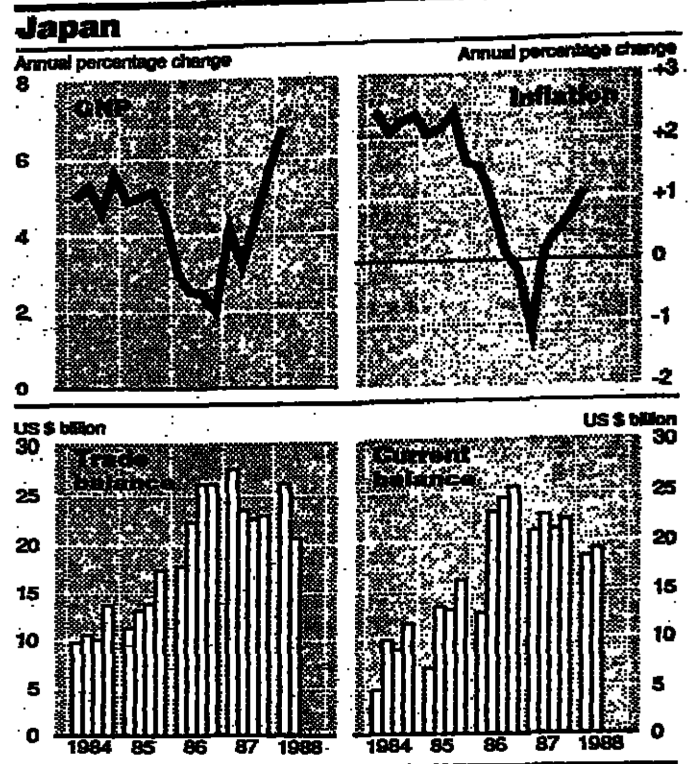
Whatever happens on the inflation front, a more urgent question may be the overall trend of domestic demand. If the trade surplus does remain stubbornly high, Japan will want to absorb imports at an even faster rate than it is doing now. The initial stimulating forces behind the current high level of domestic demand were easy credit conditions leading to strong housing construction, plus a $6,000bn pump priming package provided by the Government in the second half of last year.

However, housing starts have stopped growing and the Government has not increased its public works spending this year.

Thus, for now, hopes for continued growth in domestic demand rest mainly on the surge in private sector capital spending. It remains to be seen if it will be enough. If not, the Government will almost certainly provide more stimulus. Otherwise, the foreign exchange markets could impose a further harsh judgment on the lack of progress in external adjustment.

Ian Rodger

Japan



WEST GERMANY

Pessimists routed — at least for now

MR GERHARD Stoltenberg, the West German Finance Minister, has returned from his summer holidays with a distinct spring in his step. The West German economy, the subject of much international debate in view of the country's stubbornly high current account surplus, is performing better than expectations and looks set to turn in a growth rate this year of at least 3 per cent.

A prime source of this year's buoyancy has been a faster than expected expansion of exports, built on strong demand for West German capital goods in the main industrialised countries, as well as on this year's real (inflation adjusted) depreciation of the Deutsche Mark. According to projections from the Dresdner Bank, for instance, exports are due to grow by 4 per cent in real terms this year, taking over from private consumption (also up 3.5 per cent) as the main motor of the economy.

Although nervousness still surrounds the New Year outlook for the US and the world economy under a new American administration, West German industry has thrown off the grip of depression into which it was cast by last October's stock market crash.

Official figures at the beginning of September showed gross national product was a real 3.9 per cent higher in the first six months than the (depressed) first half of 1987. The economy flattened out between the first and second quarters, but industry's buoyant orders performance during the summer seems to indicate the absence of storm clouds at least up to the end of the year.

At the beginning of the year, in the wake of the stock market collapse, the Government's official 1988 forecast of 1.5 per cent to 2 per cent growth was widely regarded as excessively over-optimistic. Some projections suggested growth would be only 1 per cent, and the opposition Social Democrats had a field day in forecasting that a recession was around the corner. Now the Finance Minister can say with relish that the pessimists – at least for the moment – have been routed.

At this week's IMF meeting in Berlin Mr Stoltenberg can expect an abatement of persistent demands from the US and other countries for the Federal Republic to do more for the world economy. None the less – as the Finance Minister himself admits – the better short-term growth figures do not detract from more general and long-term worries over the fading dynamism and flexibility in western Europe's largest economy.

It is true that the country has chalked up six full years of steady growth following the 1981-82 recession, leading some Bonn officials even to talk whimsically abut the abolition of the economic cycle. But, at the same time, unemployment has remained stuck at an average of around 2.3m, and the incessant rise in industry's non-wage costs has prompted a strong debate, led of course by the industrialists themselves, about whether the country as a whole may be pricing itself out of world markets for the 1990s.

The coalition led by Chancellor Helmut Kohl has received the message that some elements of the country's generous and consensus-based welfare system which has served the post-war Federal Republic so well (and the roots of which go back to Bismarck) need to be changed. Much of the Government's legislative efforts over the next 18 months will be geared to a partial overhaul of the costly social security and pensions system funded by the government, employers and employees.

Social charges, together with the rise in the Deutsche Mark up to the end of last year, are blamed for pushing up overall labour costs to the second highest in the world (after Switzerland). This could turn into a growing handicap as West Germany tries to hold on to jobs and investment in a more integrated European Community in the 1990s.

The Organisation for Economic Co-operation and Development, in its annual report on the Federal Republic in July, put forward the pessimistic view that the country could be entering a "vicious circle" of sluggish investment and job creation in which low growth would feed on itself.

West German industry has thrown off the grip of depression

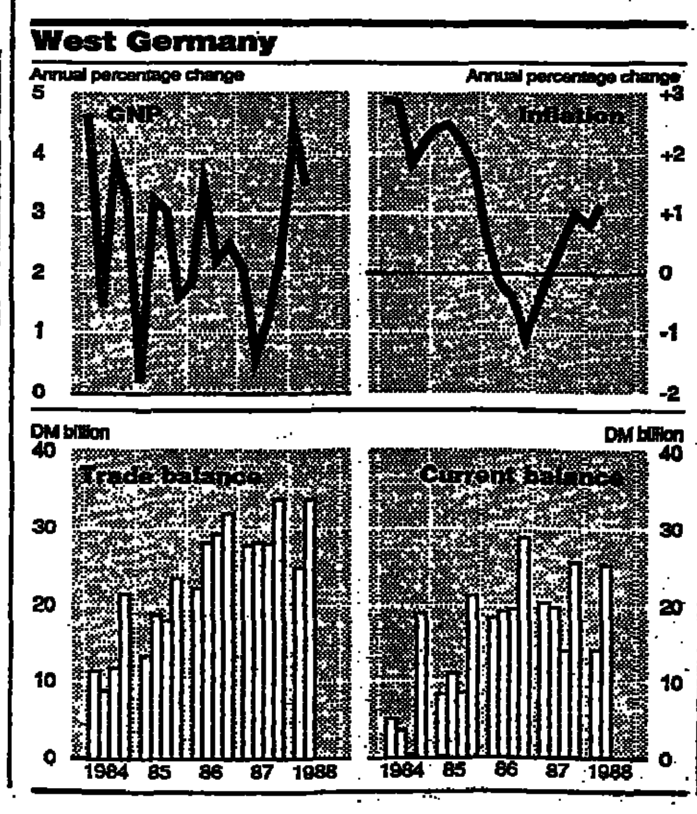
Despite this year's rosier picture, the OECD's warning could still hold good. The Government is bringing in next year DM8bn of consumer tax increases to try to bring back the budget deficit to nearer Mr Stoltenberg's long-term target of DM20bn to DM24bn. There is still a long way to go: the federal deficit is forecast next year at DM32bn, compared with a 1988 figure, now put at DM38bn, which has grossly overshot the DM29.5bn forecast at the end of last year.

The tax increases for 1989, contrasting with income tax cuts put into effect this year and again in 1990, will dampen consumer demand and the overall performance of the economy next year. Provided the world economy stays in good shape, West German growth could slacken but stay on an even keel around the long-term trend of 2 to 2.5 per cent.

However, if demand slackens in the industrialised country markets so vital for the West German economy, or if there is a major upset in the European Monetary System, then another dose of German pessimism could still be in store next year.

David Marsh

West Germany



FRANCE

Short-term pressure off

THE FRENCH socialist party which returned to power this summer after a turbulent succession of election campaigns, faces a number of difficult long-term political and economic problems. But at least it has the short-term advantage of one large, uncovenanted benefit: the economy is showing considerably more vigour than had been forecast even a few months ago.

The Government may not know how long it is likely to last, since it does not have a ready-made majority in the National Assembly, and it may not have any ready-made solutions to the country's structural problems, but at least the current buoyancy of the economy is reducing the pressure to invent instant recipes.

Only three months ago, the Paris-based Organisation for Economic Co-operation and Development was forecasting a 1988 growth rate for the French economy of only 2 per cent. By the start of the holiday season the French national Statistical Institute (INSEE) was taking a more bullish view, but its forecast was still for only 2.8 per cent growth this year. In the face of continued buoyancy, however, the French government is counting on a much higher out-turn, and looking to an annual growth rate of around 3.5 per cent.

At this rate, the French economy would be growing faster than in any year since 1979; since the low point of near-stagnation in 1983, the pace has quickened each year. Even so, last year's growth rate was only 2.2 per cent.

The slow-down previously expected for the second half of this year is now being forecast for next year. Even so, Mr Beregovoy, the French Finance Minister, has said in a recent interview that he would be counting on a growth rate of 2.5 per cent in 1989, and that may still be a prudent underestimate.

A major factor in this year's faster-than-predicted French growth rate is the vigour of industrial investment, which in the spring was forecast to grow by 6 per cent this year, but which is now projected to show a growth of around 9 per cent. The strength of industrial investment spending is an important contributory element in the continuing foreign trade deficit in industrial goods.

On the other hand, there has for some time been evidence of a lasting weakness in the foreign trade balance. A year ago

Continued on page 7

Outlook for the world's major economies: Britain

Moderation needed in domestic activity

THE PROMISE of 1988 was that the British economy would gradually and relatively painlessly slow down. Two-thirds of the way into the year it is clear that reality has proved rather different.

The pace of growth in the UK during the first half of the year has remained at a level at which few thought the economy capable. With gross domestic product growing at around 5 per cent in the second *half of the year, the view from* the Government is that the economy is expanding at an "unsustainable" rate.

The Government and UK financial markets have been caught by surprise by the robustness of the economy. The UK Treasury in March forecast that annual growth would be around 3 per cent. *Many private analysts thought* this forecast a little conservative, but few predicted the strength of demand and output or anticipated the substantial deterioration in UK trade.

The debate in Britain, as in so many other Group of Seven countries, has switched from the concerns of the turn of the year, about the *sustainability* of growth, to coping with strong growth and the possibilities of resurgent inflationary pressures that growth may bring.

Evidence of the unsustainability of growth in Britain and, perhaps, suppressed inflationary pressures, has been seen in the steady and accelerating deterioration in UK trade.

Trade in goods and services has gone from a deficit of £200m in 1986 to a deficit of £2.5bn in 1987 and to a deficit of nearly £8bn in the *first* eight months of this year. It is more than likely that the full-year *total for the deficit* will be in excess of £13bn, close to 3 per cent of gross domestic product, fully 2 percentage points of GDP greater than the official view in March.

The widening in the deficit has been accounted for by extremely buoyant consumer spending and the equally buoyant investment by industry. These have combined to boost the likely annual rate of growth of domestic demand to more than 7 per cent in the second half of the year, more than twice the most optimistic estimate of Britain's long-term potential growth rate.

To return the economy to a more balanced profile and for the trade deficit to fall, it is necessary for the pace of domestic demand to slow to less than the potential growth rate of output. In this, the Bank of England, the UK central bank, the Organisation for Economic Co-operation and Development, UK Treasury, and the International Monetary Fund are in agreement.

Mr Nigel Lawson, the Chancellor of the Exchequer, has rejected the reintroduction of credit controls to restrain the surge in lending for home purchase and consumption; he has also ruled out an emergency "mini" Budget to raise taxes and so reduce spending for consumption.

His response to the twin problems of a booming domestic economy and a deteriorating trade position, together with a potential inflation threat, has been to raise interest rates. Since June they have risen from a 10-year low of 7½ per cent to 12 per cent.

This reliance on a single weapon to fight so many problems has been *criticised* by private economic analysts. Models of the UK economy do not speak with one voice of the effects of interest rates on output, inflation and the balance of payments *and doubt* exists over the effects of interest rates.

On balance, however, the action taken is thought to be sufficient to rein-in the growth in domestic demand, but it is regarded as a blunt weapon to use and one which still leaves a question over the trade account.

A recent FT survey of economists suggested that consumers' spending would grow by 5.5 per cent this year, but slow to a 3.2 per cent annual growth next year. *Similarly, spending* on fixed investment is forecast to grow by 10 per cent this year, but slow to 3.5 per cent in 1989.

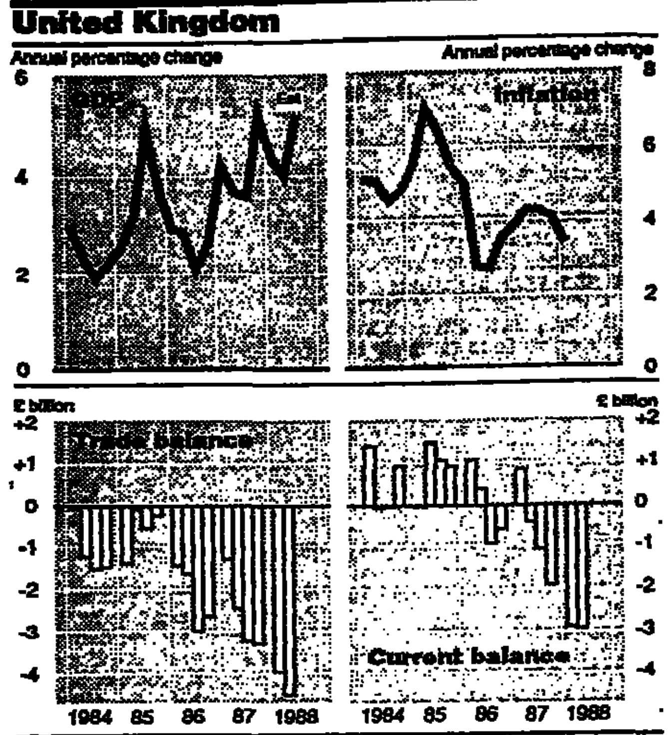
The major question over policy is, however, will sterling remain firm enough on the foreign exchanges to avert another rise in interest rates and a further deterioration in the outlook for inflation. Allied to this is whether or not the current *round* of negotiations between unions and employers will mark a rise in pay settlements or a maintenance of current levels.

Until there are clear signs of a moderation in the pace of domestic economic activity any weakness in sterling runs the risk of fueling domestic inflation through higher import costs. Higher pay settlements, coming ahead of a projected slowdown in activity and productivity, would also feed through into higher costs and *inflation*.

Another problem is the lag in statistical reporting. The effects of the summer tightening in monetary policy mean that financial markets will have to wait until October and November, and possibly later, until key indicators such as retail sales and the money supply begin to show the effects of the tightening.

Simon Holberton

United Kingdom



Pressure off France

Continued from page 6

this prompted an intense if short-lived wave of controversy over the question of whether France was in a phase of decline. The controversy has subsided, but the fact of the weakness of the foreign trade balance remains. During the early months of 1988, the authorities began to hope cautiously for an improvement, but the July figure was again disappointing, and the OECD forecasts a trade deficit deteriorating from $9.2bn in 1987 to $10.5bn in 1988 and $11.75bn in 1989. *The investment boom* sucking in imports is an obvious silver lining, but the underlying fact of the continuing deficit in manufactured goods is an equally obvious cloud.

In the short term, the prospect of continuing expansion in the economy will obviously be a major plus for the new Rocard government, which has yet to show how it will govern in the absence of a dependable majority in the National Assembly, and which has therefore not given a convincing demonstration of its staying power.

In particular, the vigour of the economy is already smoothing the government's path in the lead up to its first major parliamentary test during the coming autumn session, the budget for 1989. The buoyancy of tax revenues is such that the Finance Ministry is already predicting that this year's budget deficit, originally expected to be FFr115bn (£11bn), will turn out to be no more than FFr100bn.

As a result, the government expects to reduce a variety of taxes, both on consumer goods and on corporate profits, while at the same time increasing the level of government spending next year by 4.5 per cent.

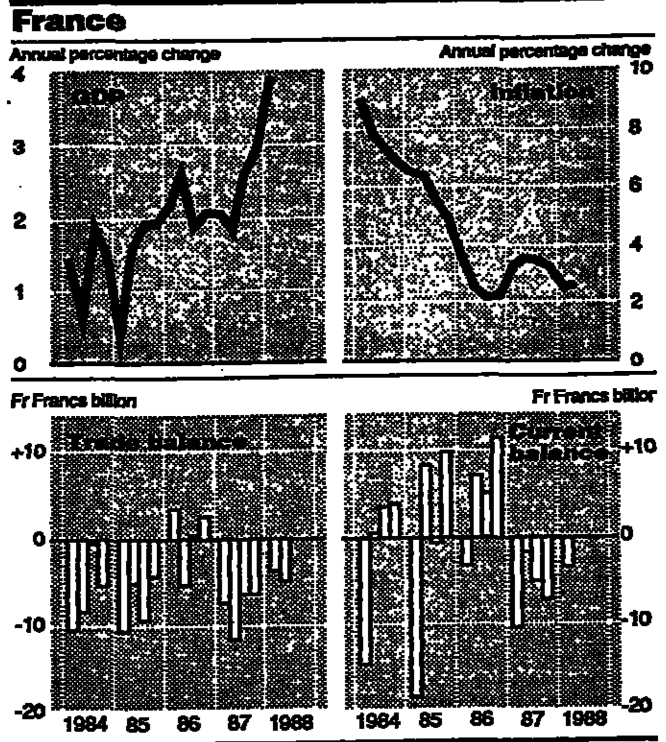
In terms of its economic policy, *this government bears no* resemblance to the extravagance of President Mitterrand's first socialist government of 1981, however. Mr Rocard is a man of prudent orthodoxy, with due regard for the indicators of market forces, and Mr Pierre Beregovoy has previously given evidence of his support for deregulation and economic competitiveness. In his recent interview, Mr Beregovoy reiterated that the government's economic policy would be based on three principles: control of inflation, lower interest rates, and a restora*tion of the balance of pay*ments.

In the immediate wake of the election, Mr Beregovoy cut French interest rates in two successive steps. But when the German Bundesbank raised its interest rates this summer, the French were forced to follow suit, and Mr Beregovoy has said that he would be pressing the Germans for more co-operation in stabilising the foreign exchange markets and reducing interest rates.

Behind the short-term political advantages conferred on the Rocard government by a faster growth rate, some commentators here are beginning to see a longer-term message of hope. If France and its partners in the industrialised world are *returning to* a sustained higher level of economic activity after the stagflation of the oil-shock era, there may be a better chance of reducing the level of unemployment.

This is a particularly grave problem for France, the demographic profile of which sets it apart from most of its western partners. In Germany, Italy and Britain, the active population is expected to decline between now and the end of the century, so that unemployment will almost inevitably fall. But France can expect its active population to go on *increasing, with the* result that its unemployment, currently standing at around 10.5 per cent, is likely to reach 11.5 per cent in 1990, 13.5 per cent in 1995, and nearly 16 per cent in the year 2000.

France



Naturally, the new socialist government has not suggested that it has any magic solution to a problem which rests on an awkward demographic profile, beyond its insistence on the importance of the fight against inflation and an upgrading of the education system. If more buoyant growth were to start providing part of the solution, however, the Rocard government would have a much improved chance of a long life.

Ian Davidson

FINANCIAL MARKETS

Blow, not knockout

IN A few weeks the world's financial markets will mark the first anniversary of the October 1987 crash. For many investors in the world's financial markets it will be an opportunity to examine the lessons learned from Black Monday, and wonder what the future holds.

Despite the backdrop of rising interest rates, nervous credit markets, and emerging concerns about inflation fuelled in part by continued robust economic growth, most equity markets have turned in reasonable performances.

"The markets have generally held up well - they are now about 14 per cent off the peak," says Mr Jeffrey Weingarten, director of equity research at Goldman Sachs in London.

This, he suggests is because most economies have done better than forecast and because corporate profits and dividends have been strong. But he notes that economic performance has varied from country to country. and that in some countries, particularly the US and the UK "inflation is more of a problem."

Indeed, although the FT-Actuaries World Index showed a gain in the first eight months this year of 16.9 per cent in terms of sterling (and 4.2 per cent in terms of dollars), there is a wide degree of variation among the national indices.

For example, based on the FTA national indices in terms of sterling, Japan posted a 21 per cent gain in the first eight months of 1988, the US 18 per cent and the UK a modest 2.2 per cent. Only South Africa, Austria and Switzerland showed losses.

Some of the biggest gains this year have been achieved by the Far East markets, Australia and the so-called Tigers, like Hong Kong and Singapore, which were among the hardest hit by the crash.

This divergence of individual market performances, coupled with Black Monday itself, has once again highlighted the opportunities provided by global portfolio diversification.

Thus the US Securities Industry Association calculated that a US investor invested wholly in US securities from September 30 to the end of November last year would have seen his or her portfolio decline nearly 40 per cent. On the other hand if some portion had been invested in the Japanese equity market, the decline for that part of the portfolio in US dollars would have been only 4.6 per cent.

Fund managers and investors in the credit markets can also often find higher returns overseas. A US investor who bought US treasuries would have shown a meagre 1.9 per cent return in 1987 after allowing for inflation. By contrast UK gilts posted a 15.5 per cent return while Japanese bonds managed a 6 per cent gain in local currencies. A US investor in these markets would have also enjoyed a currency gain, boosting total returns to 46.6 per cent for the investor in UK gilts and 38.1 per cent for investment in Japanese government bonds.

Ironically however, one initial side-effect of the crash was to send international investors racing back to their domestic markets where they appeared to feel more comfortable.

During the 1980s, long-term capital flows have played an increasingly important role in raising equity capital and financing the huge US federal

Continued on page 8

WORLD ECONOMY 8

Guy de Jonquières on Europe and 1992

A spur to action

FOR MANY European businessmen and economic policymakers, 1988 has been the year of 1992, as the European Community's plan to create a genuine single market by that date has emerged as a major talking point and a spur to action.

The sudden surge of interest is remarkable, given that the single market objective is more than a generation old, a piece of unfinished business left over from the very beginnings of the Community in the 1950s. Since then, successive efforts have been made to complete it, all of which have largely failed.

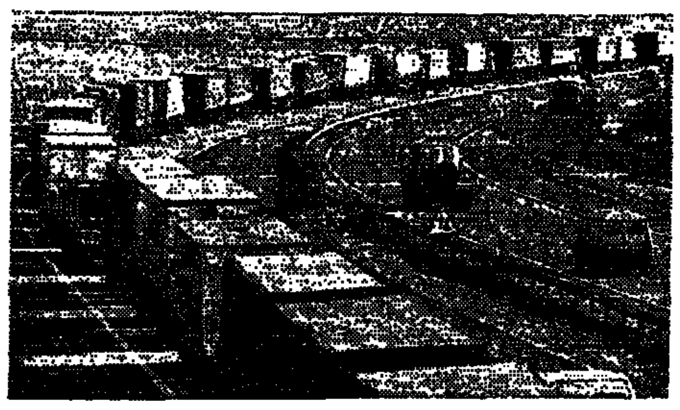
So what is different this time? Prospects for progress have been undoubtedly improved by a change of approach. In the past, efforts to unify the European market relied heavily on extensive harmonisation of products and services throughout the Community, a goal which repeatedly became bogged down in political opposition and technical complexity.

The new philosophy, championed by Lord Cockfield, the internal market commissioner, aims at harmonising only the minimum number of areas essential for reasons of product safety or prudential security. For the rest, EC countries would be obliged to recognise each others' products and services as equivalent to their own and open their markets to cross-frontier competition.

In addition, EC decision-making has been made easier by the Council of Ministers' adoption of majority – instead of unanimous – voting on a wider range of issues. The 1992 bandwagon has also been pushed along by awareness campaigns sponsored by national governments, particularly in Britain and France.

Since Western Europe emerged from the near-paralysis induced by the oil shocks of the 1970s, it has faced an array of converging pressures which have forced it to re-examine radically habits, structures and policy assumptions which, in many cases, had evolved little since the end of the Second World War. Chief among these pressures have been:

- The decline of the US and political economic hegemony which had long been a fixed point in Western European decision-making. Changing superpower relationships and the industrial rise of Japan are compelling Europe to re-define its place in a multi-polar world.
- Increasing evidence of "Euro-sclerosis", manifested in high unemployment rates, slow growth and a sluggish response to accelerating technological change.
- Growing economic inter-dependence, accompanied by vastly increased capital mobility, which has given international financial markets a critically important – though sometimes unwelcome – role in allocating resources.
- Global competition, allied with changes in technology and the product cycle, which have made it imperative for industries aggressively to seek out bigger international markets.
- Increasing limits on national governments' ability to ordain growth and output. These constraints have led to a shift in many European countries away from centralised state intervention in favour of market-oriented policies such as privatisation, liberalisation and deregulation.



Border formalities are irritating but have not stopped trade

In many ways the 1992 plan, with its emphasis on market opening and wider competition, is itself a symptom of these pressures. That interpretation is confirmed by changes in business behaviour – exemplified by the recent surge of cross-frontier European takeovers – which are already occurring well before the plan is due to take effect.

But much work remains to be done to achieve the vision of a truly unified market implied by the EC programme.

Though the removal of frontier barriers is the most publicised goal of the programme, it is economically far from being the most important. Border formalities, irritating as they are, have not prevented extensive integration of EC visible trade: almost 60 per cent of its members' international trade is with each other.

The most intractable obstacles are concentrated in two areas: government procurement, which accounts for roughly 15 per cent of the EC's gross domestic product, but only a fraction of which is open to international competition; and trade in services, particularly retail financial services, where the barriers to market access are exceptionally high.

Though a start has been made in opening up the European unit trust and insurance markets, tough bargaining lies ahead in many areas. National financial systems and regulatory policies vary widely in the EC, and many countries are sheltering behind these differences to oppose liberalisation proposals which they fear could be to their disadvantage.

Some of these obstructions could be swept away by the removal of exchange controls, a step which all EC governments have pledged to take by 1992. But that, in turn, raises other potential difficulties. Many fear that it may encourage volatile flows of hot money, destabilising currencies and playing havoc with EC countries' monetary policies.

These concerns have prompted a revival of interest in the old goal of monetary unification, on which the European Commission is preparing a study. However, both the technical and political obstacles remain daunting, and the UK, in particular, is firmly resisting any surrender of national sovereignty in this area.

In the rest of the world, attitudes towards the single market plan are increasingly tinged with anxiety that it may lead to a more protectionist "Fortress Europe". This view has undoubtedly been encouraged by a proliferation of EC dumping cases against Far Eastern exporters and by the apparent determination in some parts of the Community to use its planned single market as a weapon to extract concessions from its major trading partners.

The issue of "reciprocity" has been particularly prominent in banking and financial services. Some EC officials have even suggested that institutions based outside the Community may not be entitled automatically to enjoy the full benefits of the single market even if they are already authorised to operate in one or several EC countries.

Such statements have unnerved the US and many other EC trading partners, which fear that the Community will turn in on itself in future. It is still uncertain how well-founded such fears are, since the Community has yet to take any substantive decisions on the shape of its international trade policies.

Until now, preoccupation with removing internal obstacles has kept external trade relations relatively low on the list of Brussels' priorities. But the growing concern evident in much of the rest of the world may make it hard for the EC to avoid tackling the question in earnest for much longer.

AGRICULTURE

Cost of protection

IF THE rich, western nations stopped subsidising their farmers, the developing world could be \$26bn (£15bn) a year better off.

Moreover, the abolition of farm support by the industrialised states could pare some \$40bn a year from the US budget deficit and improve the American trade deficit by \$42bn. And it could result in the creation of more than half a million new jobs in West Germany alone, with perhaps six times that number in the European Community as a whole.

These are some of the more startling conclusions of a recent study* on the possible effects of the reform of international agriculture. It was published in May this year, when the verbal battle over farm reform was at its height between the US and the EC, two of the biggest perpetrators of the agricultural subsidies which have so distorted world farm trade over the last few years.

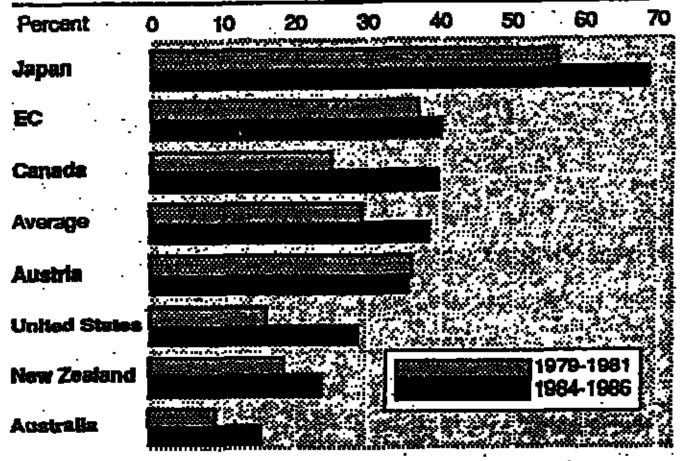
The leader of the study, Dr Andy Stoeckel, director of the Canberra Centre for International Economics, launched the report in May, declaring that everyone now knew that agricultural protectionism was a problem. What his study sought to provide was the "weight of evidence" which would convince people of the huge costs of agricultural support and thus encourage them "to demand reform from their governments".

That has not yet happened: as a more recent report from Britain's National Consumer Council** testified, consumer lobbies are weak, especially when compared to those of farm interests.

None the less, it is possible to argue that progress towards a more rational ordering of international agriculture is now more possible than it was, if only because there is now much wider acceptance among the governments of the rich nations that reform is necessary. International negotiations aimed at achieving such reform are under way, albeit for much of the last year in very hesitant fashion, within the Gatt – the General Agreement on Tariffs and Trade.

Between 1979-81 and 1984-86, the overall cost of support to the agricultural industries of countries in the OECD doubled to about 200bn Ecus a year (£132bn) according to the

Net percentage PSEs*



* The OECD defines the Producer Subsidy Equivalent (PSE) as "the payment that would be required to compensate farmers for the loss of income resulting from the removal of a given policy measure. Expressed as a percentage, it represents that part of the value of output accounted for by assistance of various kinds."

Organisation's most recent report on agriculture#. That sum is 250 per cent higher than the same countries' aid to developing countries.

The EC and the US, the world's major agricultural producers and exporters, have found it increasingly hard to fund these sums which have gone to support domestic prices, stocks and export subsidies as the two trading groups have competed for stagnant or dwindling world markets.

The Gatt first took farm reform on board at its seminal meeting in Punte del Este, Uruguay, in 1986. Then it was agreed in principle that not only should negotiations aim to reduce tariff barriers to farm trade but also to lower the domestic subsidies which caused many of the distortions in the first place.

In the course of 1987 both major trading blocs submitted proposals for negotiation, as did a number of other individual countries and an important group of food exporting countries known as the Cairns Group, which includes both Australia and Canada as well as Brazil and Argentina.

However 1988 has so far seen little progress, since the fundamental differences of approach between the EC and the US, as revealed in their proposals, remain and have proved unbridgeable by attempted compromise plans from the Cairns Group.

The most profound difference between the US and the EC is whether or not the goal should be to abolish all subsidies and farm trade protection. The US proposal clearly aims at such a "zero solution": it advocates complete liberalisation within the next decade, allowing only such exceptions as food aid to developing countries and "production neutral" income compensation for farmers.

The EC, on the other hand, goes much less far. It accepts the need for reductions in domestic subsidies as well as in trade restrictions but refuses to say by how much, or by when. The EC proposal, published almost a year ago, concentrated on the need for short term measures to ameliorate the high cost of subsidies for the export of cereals, for example, an approach which the US has refused to endorse at least until the Community commits itself to a timetable for the "zero solution".

The proposals from the Cairns Group of states, which endorsed the aim of eventual liberalisation but provided for medium and short term measures of alleviation, has so far found no favour with either of the big trading blocs.

There are several reasons for regarding the differences as primarily tactical – not least the forthcoming US presidential election. Despite protestations by the Reagan administration that it has bi-partisan support in Congress for its approach, a new Democratic administration seems certain to review the whole process and could hardly commit itself to a new approach in Montreal before it took office in January. But even a Republican victory in November would seem likely to result in a new negotiating team for the Gatt talks.

Second, however, is the changing situation within the EC: many observers believe that the combination of "battle fatigue" following the negotiation of last February's reform of the common agricultural policy, together with the uncertain prospects of the US election, has induced a less compromising attitude in Brussels which could well soften after December. EC states have been annoyed by the apparent lack of appreciation from Washington of the "sacrifices" involved in the February summit agreement, which, through a series of "stabilisers", aims to curb production and so spending on each supported commodity.

A further factor suggesting compromise is that, primarily as a result of the US drought, rising prices of several key commodities on world markets are making it less important for the EC to have short-term measures which would alleviate the cost of export subsidies.

Certainly, unless the two major blocs can compromise from their present positions, the outlook for any sort of lasting settlement is bleak.

That settlement should, experts believe, have some degree of global applicability: it should involve more than horse trading between the big blocs in tariffs or even in reducing subsidies.

Montreal may provide an indication of whether such an agreement will ultimately be possible, though it seems unlikely that the Canadian meeting will be the major turning point that many once hoped. Meanwhile, any settlement that is achieved seems certain to be partial.

Bridget Bloom

**Macroeconomic consequences of Farm Support Policies. CIE, Canberra, Australia. **Consumers and the Common Agricultural Policy. NCC, HMSO £11.95. #Agricultural Policies, M rkets and Trade. Monitoring and Outlook 1988. OECD, Paris.*

STRUCTURAL POLICIES

Supply side elevated

ONE OF the notable consequences of the conservative ascendancy during the 1980s has been the elevation of "supply side" issues to pride of place in economic policy and debate.

Be it in taxation policy, financial and labour market deregulation, or the "privatisation" of public assets, the process has cut across frontiers both physical and ideological.

There are few, if any, countries comprising the Organisation of Economic Co-operation and Development which today would dissent from the view that less government regulation of finance and industry, especially finance, is better; they would claim that efforts so far along this road have yielded greater economic performance than otherwise would have been the case.

There has been a general reduction in personal tax rates from a range of 60 per cent to 80 per cent at the beginning of the 1980s to 50 per cent and lower now. The taxation of companies has followed a similar trend and there is now also less of a bias against the self-employed than there used to be.

The industrialised state of the late 1980s has withdrawn from the ownership of many industries. This move to "privatise" state-owned companies and utilities has been most vigorously pursued in the UK, but significant asset sales have occured in Japan and France and are now being contemplated in many other countries.

Financial market deregulation is perhaps the area in which the supply-siders have done most in bringing down the barriers to the free play of market forces. Foreign exchange and credit controls in most countries have been abolished or relaxed significantly; Governments have sought to influence markets through direct intervention rather than by fiat and financial markets have been allowed to evolve relatively at will.

A notable failure, however, of the rush to deregulate has been the performance of unemployment. Despite a significant growth in those employed in OECD countries, around 23m over the period 1979-87, the level of unemployment has proved relatively impervious to the changed environment. At the dawn of the new age, 1979, the unemployment rate in the OECD area was around 5 per cent. By the end of 1987, OECD unemployment was around 11 per cent.

To date, supply-side reforms have been initiated for largely domestic reasons. There is no sense of international co-operation in the British Government's decision to end exchange controls, abolish restrictions on credit, outlaw certain restrictive trade practices of unions, or sell state enterprises to the private sector.

These changes to past ways were undertaken primarily for ideological reasons which were based on an aversion to, and the apparent failure of, the "corporatist" policies of the 1970s.

But policies such as the above have had a powerful effect on other governments. The decision by the Australian (Labor) Government to float the Australian dollar and end most exchange controls in December 1983, together with much of the financial market liberalisation which followed, was prompted by an appreciation of having to move with the times or be left out.

Australia's titular socialist government had watched what happened to the first socialist government of President Mitterrand of France and seen that world financial markets were not in the mood to endorse old-style demand management techniques to stimulate growth.

The second socialist administration in France learnt that lesson as well. It drew back from priming the fiscal pump and, realising it could not stand in the way of change, began to deregulate financial markets and phase out exchange controls. These reforms were extended by the government of Mr Jacques Chirac to encompass the sale of nationalised companies to the private sector and attempts to make wage determination less rigid.

The evaluation of structural change in terms of its benefits to growth is, however, problematic. Once something is changed it is impossible to say what the course of events would have been if the change had not been made.

The OECD attempted such an evaluation in a recent study of the UK. It found that many things, particularly productivity performance, had changed and in many cases for the better.

The above trend growth in productivity in Britain was attributed to the Government's efforts to eradicate restrictive labour practices and to curb the exercise of monopoly powers by large unions.

The deregulation of the provision of finance has helped make London a major and competitive world financial centre. The sale of state-owned companies and utilities had brought greater efficiencies to those industries, it said.

The OECD, once slow to give its imprimatur to the supply-siders, has done much to cloak structural reforms in the garb of intellectual respectability.

Only last year it published a report which sought to locate the positive economic benefits to be derived from adjustment and place the debate in an international context. That seems to have borne fruit.

Finance ministers at their annual OECD meeting earlier this year, and again in Washington for the interim committee of the International Monetary Fund, highlighted the importance of supply-side reforms and the need to co-operate on their further implementation.

The heads of government and state of the Group of Seven major industrialised countries signalled out structural reforms for special mention in their Toronto Summit communiqué.

"Structural reforms complement macroeconomic policies, enhance their effectiveness, and provide the basis for more robust growth," they said. "We shall collectively review or progress on structural reforms and shall strive to integrate structural policies into our economic co-ordination process."

There is less, however, to these high sounding words than meets the eye. The collective "review" of policies does not appear to amount to much more than a periodic general discussion, G7 officials say.

Past attempts to co-ordinate would not appear to bode well for future efforts in that direction either. On larger macroeconomic issues and attempts at co-ordination, past experience has shown that only when member countries' domestic interests coincide are they capable of concerted collective action.

Attempts by the European Community to further deregulation across the Community's frontiers have failed, or fallen far short of expectations, because they do not coincide with domestic interests – airline deregulation, the harmonisation of consumption tax rates being two cases in point.

Simon Holberton

World financial markets

Continued from page 7

budget deficits, currently running at around \$150bn a year.

But in the immediate wake of the crash, cross border capital flows experienced a massive reversal. For example in the final quarter of 1987, British investors reduced their net investments in US equities by about \$5bn and were big sellers of Japanese equities, despite that market's subsequent performance.

The Japanese themselves, long the stalwarts of the US Treasury auctions, also substantially reduced their overseas securities purchases while retaining their recently acquired title of the largest international net investors in both the US and global equity markets. Beginning with the February US Treasury refunding, there is evidence that Japanese investors have begun to return to the overseas markets, particularly the US, though probably not at pre-crash levels.

As Salomon Brothers, the Wall Street investment bankers, noted earlier this month: "International investing suffered a significant setback in the wake of the October 1987 stock market collapse. However, the markets suffered a blow, not a knockout, and the momentum of international investing has slowed, not stopped."

Salomon, like most other investment banks which have ploughed millions into their global trading networks, believe that the fundamental forces that ignited the international equity market in the mid-1980s and propelled it forward, remain in place and could strengthen further.

First, the massive advances in technology which have allowed financial institutions to transfer huge sums across oceans at the touch of a computer key will continue. Second, market liberalisation, including the Japanese financial markets, is breaking down old national barriers.

The effect of these and other factors is apparent in the continued rise of Japan as an international financial centre. According to a recent study by Mr Christopher Johnson, Lloyds Bank's chief economic adviser, Japanese banks are now by far the most important providers of international bank credit accounting for 35 per cent of the total – more than double their nearest rivals in the US.

Because of the 55 per cent surge in yen-denominated lending last year, the yen has almost caught up with the D-mark as the number two currency for bank loans, and yen bonds have overtaken D-mark bonds. In contrast the dollar's market share for both bank loans and, to a lesser extent, bonds is falling.

These long-term changes are likely to play an increasingly important role in the shape of the emerging global markets. But the markets do have more immediate concerns.

Confidence in the equity markets remains fragile at best and the credit markets, jostled by interest rate swings and concerns about inflation, are in no mood to give a strong lead.

While the recent improving trend in the US trade figures, if continued, might help calm market nerves, serious trade imbalances still persist and the sheer size of the US federal budget deficit – with little indication that a new President will be willing grapple with the problem – will continue to haunt the credit markets.

But perhaps the biggest dilemma facing the markets is in deciding whether the world's monetary authorities will be able to walk the tightrope between runaway boom and recession and thereby engineer a further period of non-inflationary expansion.

Paul Taylor

SECTION IV

FINANCIAL TIMES SURVEY

In the presidential vote on October 5, General Augusto Pinochet is asking the people of Chile for their verdict on his brand of government. **Robert Graham**, Latin America Editor, looks at the options open to the people and the implications for the country

A matter of Yes or No

THE WORDS 'Si' and 'No' have acquired momentous significance in Chile. Saying 'Yes' or 'No' to the 15 year-old military regime of General Augusto Pinochet is the stark choice facing the Chilean electorate in the presidential plebiscite on October 5.

The fundamental issue is much more the person and power of the 73-year-old general than 'Pinochetismo': do Chileans wish to be governed through to 1998 by an ageing autocratic president, taking at face value his vision of a guided return to democracy?

In submitting himself to this test, Gen Pinochet has taken a serious risk; and could well become the first dictator voted out of office.

But the triumph of a 'No' vote does not necessarily imply a complete break with the many social and economic reforms introduced during the Pinochet years since the September 1973 military coup. The *Chilean opposition is acutely* aware of the value of the past five years of sustained economic recovery, both because *this is one of the regime's* strongest cards and because of the economic mess among Chile's Latin American neighbours. The 'No' vote in the majority represents a desire to simply get rid of Gen Pinochet and return to full democracy.

More than 92 per cent of the 8m electorate have registered to vote. The sheer size of popular participation suggests new dynamics at work in the Chilean body politic, artificially frozen by military dictatorship. Already a palpable sense of transition pervades the country. The state of emergency, in place almost continuously since the September 1973 military coup, was lifted in August. The taboo surrounding public criticism of Gen Pinochet is fast eroding, and the regime is being forced to defend its record.

Gen Pinochet has donned a suit and has been obliged to talk of democracy, even if it is a democracy where "diversity of opinion is necessary and convenient only when the truth and justice are respected".

The opposition, emerging from a limbo state of semi-legality, *has been forced to bury* its differences to unify behind the 'No' vote.

Constitutionally, if Gen Pinochet gains a majority, *he will* begin a new eight-year presidential term in March 1989 then in December,1989, he will call parliamentary elections. *If* he loses, the Constitution provides for him to remain in office until March 1990, presiding over direct parliamentary and presidential elections in December 1989. Thus he is guaranteed at least another 18 months in office regardless. A *clean* and clear-cut Pinochet win would confer a hitherto denied legitimacy on the regime. It would demoralise *the opposition, play up existing* ideological and personal differences and force all parties to retrench in advance of parliamentary *elections, which offer* the next opportunity to recoup the initiative.

Such a Pinochet win would *signal* a new surge in business confidence against the prospect of stable 5 per cent growth, tight fiscal management, acceleration of privatisation and fresh foreign investment. Under the astute technocratic hand of Mr Hernan Buchi, the Finance Minister, Chile is now in its fifth year of sustained growth, demonstrating beyond doubt the best managed economy in Latin America.

Government economists believe that if current growth rates are sustained, within five years or so, Chile would join the ranks of developed nations and have more in common with Australia and New Zealand than its Latin neighbours.

*This scenario tends to over*look Chile's per capita GDP, which at $1,525 is one third lower than Argentina's and *assumes the political process* can be permanently separated from economic development.

More importantly, it ignores *the nature of a plebiscite* campaign, where the regime has used the full weight of the state apparatus to influence the outcome in its favour. The opposition will almost certainly deny the legitimacy of a narrow Pinochet victory, with the consequent risk of a dangerous polarisation in which armed elements on both the extreme left and right would emerge.

The regime's instinctive reflex when faced with the unpredictable is to clamp down but this becomes a less viable *option now that the system has* been opened up by the plebiscite. Yet at the same time, Gen Pinochet has prepared *nothing for* the *promised next* parliamentary phase. He has divided his own supporters and never bothered to foster a Pin*ochetista* party in the *manner* of a Peron.

The ultimate arbiters of events following the plebiscite will be the armed forces. On more than one occasion they have said they will respect the result. For them to go back on their word would cause damaging divisions within the services, and would encourage a future civilian government to pursue human rights trials - a *highly sensitive topic which* the opposition is currently not pressing. Respecting a 'No' victory, however, would inevitably *test the military's loyalty* to Gen Pinochet and strain interpretation of the Constitution.

Although Gen *Pinochet is* protected in office in the event of defeat until March 1990, in practice his authority would be undermined immediately. The 16 parties from the right to left of centre, which have united round the 'No' platform, are thus committed in the event of victory to initiate talks with the military on an accelerated transition process. This would involve bringing forward both parliamentary and presidential elections, changing the mechanism to reform the Constitution and rewriting the rules governing political parties. (At present the communist party, which represents about 12 per cent of the vote, is permanently disqualified). These reforms would then be put to a plebiscite.

The opposition parties cannot be reasonably expected to formulate detailed post-plebiscite policies when so many unpredictable elements are in play. Their priority is to defeat Gen Pinochet in the plebiscite. The nature of their dialogue with the regime in the event of a 'No' victory depends on the size of their vote - the larger the vote, the more the left in the opposition is likely to press its demands

Economic policy would probably continue within the same broad macro-economic parameters. But a Pinochet defeat would put great pressure on the victors to raise basic wages and increase social spending - especially as Chile has a cushion of almost $2bn in reserves. Existing foreign investment projects would be scrutinised (though probably few altered as foreign investment has tended to be in export orientated sectors) new debt conversion deals would probably be frozen and a move would be made to renegotiate the country's $18bn debt. Many of those predicting economic disaster if the 'No' vote wins forget that *the Pinochet Government* in the past has made serious errors (especially the espousal of fixed exchange rates, which *cost Chile 4 per cent of GDP* and exacerbated the economic collapse in 1982.

Many of the changes wrought *during the past 15* years are so profound they cannot easily be altered. Chile now possesses a genuine export-orientated economy, whose base has been broadened from copper to other minerals, forestry, and agricultural produce. Private initiative has become the principal motor for economic development and the business community represents a well organised and powerful lobby which no government can ignore.

The state bureaucracy - except in security matters - has been drastically pruned. In the first six years of military government almost 100,000 jobs were cut. Significant sectors of traditional state involvement,like health and pensions, have been *handed* over to private enterprise and are being efficiently operated. The *switch to private pensions*, which cover 70 per cent of the workforce, has transformed the pension funds into exceptionally powerful institutions. Their activities have a major impact on the capital markets, and their investments give many Chileans a stake in the health of the stock market in particular and the economy as a whole. Privatisation meanwhile has begun a process of employee share-ownership.

The relationship between labour and capital has been almost irreversibly changed. Military rule has broken the power of organised labour, and freed the labour market through easy hire and fire laws. As a result wages have been kept low, union affiliation has halved to less than 18 per cent of the workforce, labour units are smaller and there has been a huge rise in temporary employment.

It is a society of opportunity and initiative but with a large, mainly urban, group of low paid and unemployed people, vulnerable without the protection of the state. The economic boom has not filtered through to this under-class which has little to lose by voting against the regime.

If Gen Pinochet loses, it will be in part because he has underestimated the size of this *under-class It will also be* because he has displayed like so many dictators all the arrogance of power and refused to *make any gesture of national* reconciliation.

CHILE

Left: General Augusto Pinochet, Chile's ruler since 1973

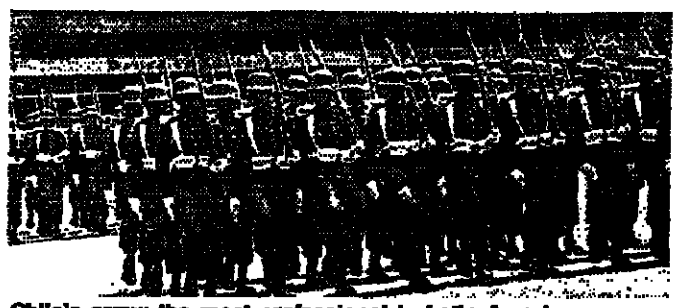
CONTENTS

ARMED FORCES

Army marches on

A PHOTOGRAPH taken of Chile's military junta taken soon after the 1973 coup d'etat shows the country's military and national police commanders standing behind General Augusto Pinochet.

When the photograph was taken, the junta was to rotate the presidency and the different government ministries were divided among the four branches of the armed forces.



Chile's army: the most professional in Latin America

Now 15 years later the picture of Chile's military commanders has changed dramatically. Two of the original members are no longer in the government: former air force Commander Gustavo Leigh was forced out in 1978 over disagreements concerning an eventual transition to democracy, and Carabinero commander General Cesar Mendoza, resigned in 1985 after a scandal in which 14 Carabineros were implicated in the kidnapping and murder of three Chilean leftists.

Since 1981 one the junta has operated as a legislative body under General Pinochet's executive office, with three army generals joining the other military commanders.

The Chilean armed forces are considered by many specialists to be the most professional in Latin America, but their presence in the government predates even the 1971 military coup. The late socialist President Salvador Allende brought military officers into his government's last cabinet in an effort to stave off the coup.

The three military Cabinet officials resigned on the eve of the takeover.

The new military junta, in a kind of power-sharing arrangement, divided the cabinet among the four services, but quickly brought in civilians to take over economic posts.

Today only five of the regime's 16 Cabinet-level posts are held by military officers, positioned in the ministries of economy, transport, defence, national property and public works. If much of the everyday functioning of the government is in the hands of civilians, it is still the military - and in particular, the Chilean army - which has the last word.

In 1973 the army's corps of generals numbered 25. Today there are 54 generals in active service. Along with more than doubling the generals' ranks, General Pinochet has carefully managed promotions and postings to ensure that only his most trusted collaborators occupy positions of influence.

The fact that Chile had no recent tradition of coups means that General Pinochet, who came to power in a military takeover, was unlikely ever to be removed from office in one. The hierarchical structure of the army has largely remained but analysts have noted a politicisation in the service, especially among younger officers.

In March the director of the army's paratrooper and special forces training unit, Colonel Jose Zara, rendered a homage to General Pinochet during his visit to the school.

Colonel Zara said his troops pledged their loyalty to "the man, officer and statesman who has taken our country down a road of progress, modernisation and freedom."

The colonel's words sent a shudder down the backs of the regime's critics. The army's staunch backing of General Pinochet and the 'Yes' vote in the plebiscite was also evident last month when the President celebrated his 15th anniversary as army commander.

While his previous anniversaries have been marked with much less ceremony, the August 23 parade of cadets and officers at the military academy had an undeniable political significance.

Among the guests were retired army officers, former government officials backing a 'Yes' vote in the plebiscite and pro-regime civilians. Regime critics have also pointed to the actions of army officers in such posts as the regime's department of civic organisations, whom they accuse of using their positions to campaign for a 'Yes' vote for General Pinochet in the October Fifth plebiscite.

The other branches of the military - the Chilean navy, air force and national police - appear much less committed to a victory for the 'Yes' vote. The three forces' commanders would have even preferred a civilian candidate for the plebiscite, but backed down in the face of the army's determination to see its leader continue in power. Yet the other commanders have indicated they would not be adverse to sitting down with the country's civilian politicians should the 'No' vote win, a suggestion which many army officials find unthinkable.

In April Marcelo Mansilla, a professor at the army's strategic studies academy said the regime was weighing its options in the plebiscite and implied that refusing to acknowledge a 'No' victory was one possibility.

He said: "What is fundamental is the preservation of the social, economic and political framework. It cannot be sacrificed because of a mere circumstance of majorities and minorities in an election."

Some regime critics are privately agonising over the possibility of a military crackdown on the pretext of some subversive threat during or immediately after the plebiscite. A former Pinochet regime official offers the following scenario:

Intelligence agents who have infiltrated Chile's tiny Marxist guerrilla group, the Manuel Rodriguez Patriotic Front, manage to contrive a series of terrorist attacks which in turn prompt the regime to declare a state of siege, preferably as the votes are being counted. But such a manoeuvre would be so transparently obvious that even the most fanatical hardliners might be reluctant to attempt it. What seems certain, however, is that the Chilean army's preception of its role is far from what the country's civilian political leaders would have in a future government.

Mary Helen Spooner

The political parties are coming back to life

Spring is in the air

THIS year has seen a political spring in Chile. Parties are coming to life openly for the first time since the 1973 coup d'etat. But they are doing so under the restricted conditions of participation in the plebiscite planned for October 5.

Political parties were outlawed by the military junta and the long freeze has produced a confusing series of schisms, especially among those in the opposition.

But whatever the confusion, parties have to conform to the March 1987 law that granted them the right to function. And this has brought a sort of winnowing. The law requires each party to amass 33,550 signatures, corresponding to 0.5 per cent of the vote, to operate in all regions of the country. The regime had burned the old electoral registers.

According to the electoral registry's figures at the end of July, only five of the 12 parties that attempted registration campaigns met the minimum requirement and will be allowed to place observers at polling stations.

A plethora of other parties with fewer members legally exist, at least until the first general election for a Chamber of Deputies, due to be called after the plebiscite. There after, by law they must have at least 33,550 members. Any party which espouses class conflict or is "inimical to the family" cannot be legally recognised, a provision aimed at excluding Marxists.

Of the five parties that qualified in the recent registration, three are dedicated to the 'No' vote against President Augusto Pinochet. The two most important of these are the centrist Christian Democrats (PDC), a traditional political force and the largest opposition party, and the newly-formed Party for Democracy (PPD), a conglomeration of left parties.

Chile's newest and least well defined political grouping, the Humanist Party, also qualified. The centrist Social Democratic Radical Party gathered enough members, but not in time to participate in the plebiscite.

On the right, the recently formed National Renovation Party (RN) and the slightly older National Advance Party (AN) lead the 'Yes' campaign.

The parties are:

●The centrist Christian Democrats, whose president Mr Patricio Aylwin of the old guard, consider themselves the most reasonable voice of democracy. They are viewed by foreign investors as a palatable alternative should President Pinochet lose the plebiscite.

Their democratic credentials are somewhat tarnished by their support for the 1973 coup. However, Mr Gutenberg Martinez, the secretary general of the party, says that at the time the party was acknowledging "that the majority of people were relieved by the coup", he points with pride to his participation in a demonstration against a coup the day before it happened.

The party, with a broad reach outside the capital, is middle class and has a significant labour following.

●The Party for Democracy, led by Mr Ricardo Lagos of the Chilean Socialist Party, perhaps the most charismatic figure of the left opposition, claims that it is not properly a party but "an instrument" to fight the regime in the plebiscite and restore democracy.

Besides Mr Lagos's faction of the socialists, the PPD includes representatives of a breakaway of the Radical Party, part of the Movement of Popular Unity Action (MASPU), the more conservative Republican Party and a group of left independents.

It is the key force on the left for the plebiscite, but its future as a group is unclear given its coalition nature.

●The Humanists, predominantly composed of young people with a majority of women, say they are a non-ideological, left party. Their president, Mr Tomas Hirsh, 32, says that they represent "a rejection of traditional politics."

Run on a shoestring budget of voluntary contributions, the Humanists take their inspiration from an Argentine thinker and philosopher, Mr Mario Rodriguez, who is known as 'Silo'. Mr Rodriguez's ideas are akin to the California phenomenon called the "human potential movement". This roughly means the Humanists believe in the individual's ability to change his world and that they put a premium on what is called personal growth.

KEY FACTS CHILE

Population	12.7m
Population growth	1.6%
Area	290,000 sq miles
Major cities and population	
Santiago	4.1m
Valparaiso	0.5m
Punta Arenas	80,000
The economy*	
GDP	$19.4bn
GDP per capita	$1,525
Growth rate	5.9%
Rate of inflation	10%
Total outstanding debt	$18.5bn
Debt service ratio	30%
Cumulative direct foreign investment	$3.8bn
Trade*	
Exports	$6.4bn
Imports	$4.6bn
Balance of payments surplus	$1.8bn

*Projections to year end 1988

The Humanists met problems with the electoral registry authorities in September because they failed to follow registry processes when they changed the party leadership. Although merely bureaucratic foul-up, the registry disqualified them from participating in the plebiscite, a decision the party appealed against. Should they be forced to withdraw, the 'No' campaign will have lost an important mobilising and poll-watching force.

●The Radicals, led by Mr Enrique Silva, are a non-Marxist, centre left party that is today a shadow of its former self. For decades since its founding, 124 years ago, it was the prime political force in Chile and can boast four past presidents.

Mr Ricardo Navarrete, the secretary general, says the party "is in full and frank opposition to the dictatorship. But we reject violence and believe in the peaceful road to change."

The Radicals are the most likely coalition partner for the Christian Democrats in the electoral future, after the plebiscite. The Radical Party's base includes white and blue-collar workers, peasants and small and medium-sized business.

The Christian Democrats, Humanists and Radicals as well as the separate party members of the PPD are part of a 16-party coalition for a 'No' vote. This effort at opposition unity dates from early this year. While disagreements and animosities abound within the coalition, it has managed to overcome these to sign broad accords in favour of an accelerated calendar of transition to democracy and free elections.

In general, the opposition has steered clear of attacking the regime's economic policies except to say that they had created greater poverty. They point to a fall in average real wages to the level of 1971. Chile's current per capita income is just $1,345 per year.

Further to the left are the outlawed Communist Party, which once commanded between 10 and 15 per cent of the vote, and the Revolutionary Left Movement (MIR). Both are still forces in Chile. Also, there is the underground guerrilla movement, the Manuel Rodriguez Patriotic Front (FPMR). This is reportedly an armed wing of the Communist Party. The FPMR has declared a truce on violent actions until after the plebiscite, a move designed to prevent the regime using them as an excuse to call off the vote.

In the pro-Pinochet camp:

●The National Renovation Party enjoys the leadership of two of the most popular conservative figures, its president Mr Sergio Jarpa, a former Interior Minister, and as secretary general, Mr Andres Allamand. Its well spoken vice president, Mr Miguel Otero, says RN is the backbone of the 'Yes' campaign and will be the most important political party in the near future.

The party regards itself as pragmatic, and claims that it does not represent the "economic right wing." It does, however, favour a free market economy and has a solid base among business.

The party began last year as the amalgamation of three smaller movements of conservative independents. One of these departed earlier this year because it wanted to have General Pinochet named as the military's candidate immediately.

The RN would have preferred a civilian candidate, such as its own Mr Jarpa. It none the less is supporting President Pinochet because it views a 'No' victory as a return to a chaotic socialist state.

●National Advance has been a consistent group of regime supporters. It proposes a permanent authoritarian and military-dominated system, and, similar to the classic corporatist, fascist model, strong state participation in the economy with a dose of populist measures. Their closest ally in backing President Pinochet is the Independent Democratic Union (UDI), which is not among the registered plebiscite participants.

The UDI, whose most active spokesman is Mr Andres Chadwick, favours free market, private enterprise and tends towards conservative Catholicism. Attempts to create a regime political movement have foundered, however, on the mutual dislike of the two groups.

●The National Party, once the most important conservative party, has split, and consequently been seriously weakened. One faction favours General Pinochet, the other is against and has allied itself with the opposition. Many in the party would have preferred a civilian candidate, rather than the General, to lead a transition to democracy.

Barbara Durr

BANKING

Sector finds its feet

CHILE'S BANKING industry is climbing out of the hole it dug for itself.

Bankers are now confident that they have turned the corner from the dark days of 1982 and 1983, which saw a virtual collapse of the financial system. They are entering new financial service businesses and carving out niches in a highly competitive environment.

The banking sector's recovery stems basically from the central bank's generous scheme, designed in late 1982, and carried out over the following two years, to rescue the banks by buying their bad loans.

Depending on their level of indebtedness, banks were given between 10 and 50 years to repurchase their old portfolios, starting in 1985.

Of the approximately $3bn that the central bank took on in bad debts nearly two thirds belonged to Chile's two leading private commercial banks, Banco de Chile and Banco de Santiago. Their $2bn represented four times their capital.

The origin of the banking crisis overall lay in intra-group lending, and as Chile's economic crisis hit in 1981 the impact was concentrated. The only Chilean bank to escape having to sell some portion of its portfolio to the central bank was the Banco Industrial y de Comercio Exterior (BICE), a conservatively-managed bank with ties to the Rothschild Group, a bank regulatory official said. The Chile and the Santiago were the most heavily indebted in dollars and were, along with the Banco de Concepcion and the Banco Internacional, given the longest period, up to 50 years with possible extensions, for repurchasing their old portfolios. All of these banks were intervened by the state at the beginning of 1983. Another bank, the Banco Colocadora, was also intervened but was merged with the Banco de Santiago. Today, state intervention is over, after the superintendency of banks judged last year that normality had returned.

All banks that were forced to sell bad loans to the central bank must devote after-tax profits to repurchase of the old portfolio. Dividends cannot be distributed to pre-1985 shareholders until the loans are repurchased. However, dividends can be distributed to post-1985 shareholders.

There is a sort of race on among those banks with less lengthy periods of buy-back to clean their slates with the central bank. One foreign bank, the Sudameris, has already repurchased its bad loans, and two other foreign banks, Banco Espanol and Banco Exterior de Espana, will have wound up the payment of the central bank bonds that represent 40 per cent of their old loans this year, according to the superintendency of banks. Repayment was divided by the central bank into non-interest bearing, non-commercial bonds for 40 per cent of the portfolios and the remainder must be transacted in cash.

Among the national banks, the Banco O'Higgins, once the Lloyds Banco de Londres and Sud America, appears to be ahead of the pack in repurchasing its portfolio. Mr Gonzalo Menendez, the bank's general manager, calculates that the bank will complete its buy-back by 1991.

The superintendency of banks judged last year that normality had returned.

The recovery of the sector, which has made the repurchases possible, is due in large part to the country's steady 5 per cent or more economic growth during the last five years, say bankers.

This has allowed them to improve their portfolios considerably as foreign trade has boomed, foreign investment has poured in and project financing has increased. The greater prosperity has in turn led to more retail banking, with two new automated teller networks shared among two groups of banks and specialised services. The Edwards has especially sought to carve out retail banking as its niche. Also, given the slender competitive margins of traditional banking business, the superintendency of banks allowed banks, starting last year, to create companies in other non-banking financial services. As of the end of 1987, eight banks had opened Agencias de Valores (a combination of security brokerage and investment bank), three mutual funds and three leasing companies had started and one stock brokerage began. This year, these have multiplied, with four further leasing companies and another stock brokerage.

Capital expansions have also contributed to a return to health. Although the superintendency requires a 20:1 capital ratio, banks pride themselves generally on keeping a 17:1 ratio.

In one way, however, the glow on many bank's balance sheets is slightly duller in reality than it would appear. Under a debt-swap provision, debtors can repurchase dollar debts at a secondary market discount and banks convert these into local currency at roughly 85 per cent to 90 per cent of face value. However, they record the 10 per cent to 15 per cent discount that they did not pay as profit. This has temporarily ballooned earnings with an item that cannot be projected into the future.

Another difficulty is that the financial industry is over-populated. In a financial system that as a whole is only worth about $22bn, there are 39 commercial banks and four finance companies. Among the banks, there are 23 foreign and 16 national, all of whom compete equally. Unlike most countries in Latin America, Chile does not discriminate against foreign banks, according to a senior Citibank official.

In addition, as a draw on the nation's savings, there are 12 private pensions funds, created in 1980 after the state system was dissolved, three non-bank mutual funds, and about 25 insurance companies.

While confidence is high, bankers say that a shakedown in the industry is due in 1989. Mergers of institutions by market segment are expected. While banking authorities have become extra vigilant since the crisis, if a bank fails now, it will not be rescued by the central bank. One bank regulatory official said, "we will never do that again".

Bankers though are worried that some economic changes could be in store if President Augusto Pinochet loses the October 5 plebiscite. If he wins, keeping the economy as is with a free market and clear rules of the game, bankers seem sure it's mostly clear sailing ahead.

Barbara Durr

By almost any measure Chile is out-performing all other economies in the area

Recovery right out of the textbook

THE Chilean economy is now in its fifth year of consecutive growth.

Although the country faces development problems broadly similar to the rest of Latin America, by almost any measure it is out-performing the other economies of the region.

Economic recovery has occured alongside scrupulous service of a heavy debt burden. However, the recovery has to be measured against the backdrop of a 14 per cent fall in GDP in 1982, the worst of any debtor nation and three times the average fall in GDP that year in Latin America. Only this year has Chile recouped the loss, and employment levels have yet to reach those of the early 1980s.

The basic reasons for the recovery are straight from the International Monetary Fund textbook with the notable exception of protectionist measures to encourage import substitution of foodstuffs.

Imports have been contained while a strong stimulus has been given to an export-orientated economy, diversifying from the traditional dependence upon copper. This has combined with exceptionally tight fiscal management and the right kind of incentives to encourage domestic and foreign investor confidence.

Corporation tax has been cut to 10 per cent, creating exceptional profitability and with dividends taxed at 55 per cent, there has been a strong incentive to reinvest profits. Chile's imaginative use of debt conversion mechanisms has been especially significant in attracting foreign investors and reducing $4bn of private and public sector debt since 1985. As a result total foreign debt with new loans contracted only stands at $18bn against $17bn at the onset of the debt crisis.

In the first half of the year the economy grew at 5.9 per cent and shows no sign of slowing in spite of the onset of the plebiscite. Inflation is running close to 10 per cent on an annualised basis, half the 1987 level. Wages have risen 9 per cent in real terms and official unemployment is hovering around 10 per cent of the 4m workforce.

In terms of budgetary management, the public sector deficit is on target for 0.5 per cent of GDP. Under Mr Hernan Buchi, Finance Minister since 1985, caution and efficiency have been bywords.

Government spending this year is actually 2.7 per cent less than 1987 and 7.7 per cent lower than three years ago.

Pay packets are far from generous, transport costs are high and there is a large under-privileged class

This reflects the gathering impact of the state's reduced role in the economy. (The public sector accounts for 35 per cent of GDP, 10 per cent lower than a decade ago). Lower spending this year stems from cutting back subsidies on make-work programmes and a reduction in the cost of domestic debt service (twice as low as 1985 levels).

The government is confident of its fiscal deficit target in spite of some electoral handouts in advance of the plebiscite - a reduction in value added tax from 20 per cent to 16 per cent, a 3 per cent lowering of gasoline prices, a cut in import tariffs from 20 per cent to 15 per cent, amnesties on unpaid water bills and a bonus payment to pensioners.

Externally, the trade balance is heading for a record surplus of $1.8bn for 1988 ($1.3bn in 1987). Imports in the first six months have increased only 6.8 per cent in volume and 17 per cent in value. The composition is heavily slanted towards capital goods, whose 23 per cent rise underscores the amount of investment under way, and the swing away from consumer goods.

Meanwhile the export performance is quite remarkable - 44 per cent up on the first half of 1987 to $3.47bn. This in part represents the windfall from copper prices at one of their cyclical peaks. Yet although copper exports rose 73 per cent, they account for less than 45 per cent of total export earnings. Non-copper exports increased 29 per cent in volume, mainly as a result of a fresh spurt in agricultural produce, fish and fishmeal and forestry products.

The trade surplus has reduced the potential finance gap, and this year Chile will have have to find perhaps less than $400m in external funds. With debt service payments retimed last year, the outflow of resources has been softened through to 1990.

Relations with creditor banks have been exceptionally smooth, given Chile's punctilious record of debt service. The country's creditworthiness was underlined by the recent agreement on the complex $1.1bn finance package for the Escondida private copper project. The Chilean authorities hope in the not too distant future to return to voluntary borrowing.

So far this year net capital inflows have totalled $126m. Foreign investment has brought in $437m, notably in forestry, mining and telecommunications. Chile has encountered no difficulty in suppliers credits and multi-lateral institutions continue to look favourably on Chilean projects, providing $217m in the half year. As a result the overall balance is back in surplus to the tune of $224m and reserves have been accumulated. The year end projection for net international reserves is $2bn, according to Central Bank estimates.

About $500m of these reserves will be in the form of a special fund for excess copper revenues. The fund has been accumulating since July 1987, on the basis of any movement above a copper price of 75 cents per pound on which all budgetary calculations are made. Every cent variation above or below 75 cents, Chile gains - or loses - on annualised base $30m. The current copper price boom therefore provides a significant cushion for the immediate future.

With the debt service ratio brought below 30 per cent, from its historic of almost 60 per cent, Chile is less vulnerable to external shocks.

Debt service, without the relief obtained by other Latin American debtors, never the less remains precarious and would be compromised by a rise in international interests rates - especially if this is accompanied by a fall in copper prices and a slowdown in the industrialised countries, the principal markets for the Chilean export boom. Again Chile has some insulation here by virtue of maturing investments especially in forestry, salmon and mining. Escondida alone could provide between $400m-$600m in export revenue by the mid-1990s.

Looking ahead to 1990, Chile faces an increase in the burden of debt service and some of the restrictions on capital transfer contained in debt conversion deals are due to be lifted. Foreign banks which have converted into Chilean debt are likely to repatriate funds but they only account for ⅓ of the total - the remainder concerns multi-nationals who should have an interest in reinvesting.

The Pinochet Government's aim is for steady 5 per cent growth for the forseeable future. The current investment level of 17 per cent of GDP may not be enough to sustain such growth.

The domestic banking system is also still suffering from the effects of the 1981-82 financial collapse, which obliged the government to intervene in the major private banks. They are in the process of buying back loans assumed by the Central Bank so their exposure has to be cautious.

Setting aside political uncertainties, the biggest question mark about the present economic model concerns wages and social welfare.

Laws that permit easy hire and fire, coupled with the break-up of organised labour and a high level of unemployment have helped keep wages down.

Sustained recovery is creating tighter labour demand, with a consequent effect this year on wages - construction wages have gone up 12 per cent in real terms. But pay packets are far from generous, transport costs are high and there is a large under-privileged class which has not yet benefited from Chile's macro-economic success. Whatever the outcome of the plebiscite, wages and social benefits are liable to be given greater attention, and so releasing some inflationary pressures.

Robert Graham

GDP GROWTH BY ECONOMIC SECTORS†

Sector	1982*	1983*	1984*	1985*	1986*	1987**
Farming	−2.1	−3.8	7.1	5.6	8.7	4.0
Fishing	9.4	8.8	11.5	5.6	10.0	10.7
Mining	5.7	−1.9	4.4	2.2	1.5	0
Elec/Gas/Water	0.1	4.4	7.0	3.5	6.5	4.8
Industry	−21.0	3.1	9.8	1.2	8.0	5.6
Building	−23.8	−5.0	4.2	16.1	1.3	10.6
Trade	−17.3	−3.5	5.0	1.7	5.5	7.0
Transport and communications	−11.8	−1.5	6.0	5.5	8.1	8.5
Diverse services‡	−15.0	−0.1	5.4	0.0	4.7	5.9

†(Annual variation rate at 1977 constant prices) *Provisional **Projection with information up to September 1987 ‡includes financial services, personal services, housing ownership, taxation on imports and costs imputed to banking services

DIRECT INVESTMENT (In $ million) DL 600

Sector	1982	1983	1984	1985	1986	1987	1988*	Total
Services	204,831	24,506	20,367	64,850	109,560	124,581	346,656	895,351
Industry	151,395	130,125	26,622	322,923	105,719	53,045	49,357	839,186
Mining	123,551	114,738	20,746	28,300	40,323	363,933	1,247,082	1,938,673
Agriculture	13,010	38,270	2,805	2,265	629	3,946	2,334	63,259
Construction	7,961	15,570	1,075	1,452	6,218	16,067	10,245	58,588
Transport	765	4,152	6,468	29	322	56	55	11,847
Forestry	350	952	540	0	0	440	565	2,847
Fishing	28,000	0	1,130	1,160	0	932	1,700	32,922
Total	529,863	328,313	79,753	420,979	262,711	563,000	1,657,994	3,842,573

*Provisional

Country has suddenly become highly attractive to many major companies

Debt equity is investment key

THIS YEAR is promising to be a record for foreign investment in Chile.

This is extraordinary for two reasons. Firstly, foreign investors have had an aversion to Latin America in recent years and, secondly, Chile's current political risk considerations are significant. This is an election year, there is an oscillating level of political violence, and a human rights record that has made the country a pariah state.

Despite these drawbacks, in the first eight months of this year, the government authorised $1.6bn of foreign investment projects, a jump of 275.6 per cent over the same period for 1987. Investments that actually were put in place rose to $438.5 million in January through August, an increase of 62.8 per cent. The reason for the leap say government officials and foreign investment brokers is Chile's debt-equity swap operations that began in mid-1985, but took off last year.

These have lead to or been combined with direct capital investments. Mr. Juan Andres Fontaine, in charge of studies at the central bank and a top economic policy man, said the debt-equity schemes were "a detonator" for the foreign investment explosion.

Mr David Gallagher, managing director of the investment bank Asset-Chile, says: "Debt-equity has focused attention on Chile."

Asset-Chile handled the first Chilean debt swap and was key to designing the debt-equity provisions of the foreign investment code. Countering critics who claim the swaps have only meant that companies changed from national to foreign hands, Mr Gallagher says that the debt-equity program "has not been a diversion, it has created more cash investment."

Comments from a variety of executives at foreign companies are nothing but positive. "The economy is ontrack...The basics are right...The attitude is positive...We're here to make money and we're here to stay."

Forestry, fishing and mining have been big drawing cards. Royal Dutch/Shell just completed a $162m debt-equity swap, the largest one so far this year, for a forestry, paper and pulp operation. This is part of a total project worth $400m, of which shell has 60 per cent and Citibank and the government's privatisation drive. He bought it through his Bond Corporation International. By the end of this year, Bond Corporation International will have invested $300m, according to Mr Mark Babidge, BCI's chief executive in Santiago. The purchase was controversial owing to a slip in Bond's handling of its tender.

MAJOR FOREIGN INVESTMENT PROJECTS IN CHILE 1987

Investor	Country	Sector	Amount ($m)
Marubeni Corporation	Japan	Services	2.0
Inv. Property Marketing	Bermuda	Mining	7.9
Reckitt Colman Chiswick (OTC)	UK	Industry	5.4
Philips Gloelampenfabrieken	Netherlands	Industry	2.5
Carter Holt Harvey	New Zealand	Fish/forestry	58.6
Chase Manhattan Bank	US	Services	20.0
Phelps Dodge	US	Industry	2.5
Amax Expl	US	Mining	300.0
Jetex	Panama	Fishing	2.4
Austin Powder	US	Industry	5.0
Gold Dust Ventures	US	Mining	2.7
Standard Fruit	US	Fruit	2.5
Dyckerhoff & Widmann	W.Germany	Building	2.7
NMK International	Dutch Antilles	Services	8.0
Broken Hill Properties	Australia	Mining	1,100.0
Utah Int*			
Rio Tinto Zinc*	UK	Mining	
Japan Escondida Corp*	Japan	Mining	
Bond Corporation†	Australia	Telecom	280.0

*Mining project Escondida 1988 †1988

Corfo, the public sector holding company accepted Bond's tender, said to be $80m more than the runner up's, the Spanish Telephone Company.

Bond offered $120m for an initial 30 per cent of the shares and a promise to capitalise the company in a second stage for $150m, according Mr. Alvear. But some vague wording on the second stage of the agreement caused Chile's Auditor General to object to the deal. Corfo then cancelled the bidding process altogether and entered private negotiations to Scott Paper Co of the US each have 20 per cent. In July, Shell and its partners bought with swaps totalling $277m a nearly completed pulp plant in Nacimiento, 91 per cent of the shares of Forestal Colcura, a forest south of the city of Concepcion and the expansion of the eucalyptus afforestation programme of Forestal y Agricola Monteaguila. The investment includes an $80m expenditure to finish the pulp plant.

Unlike most other forestry, pulp and paper operations which use pine, the eucalyptus project is for glossy paper and high quality paper products. The demand for these has risen recently in Chile. This follows earlier Shell investments, also using the debt-equity swaps, in another forestry company, and a gold mine, Choquelimpie, which is expected to produce 40,000 troy ounces per year.

After 70 years in Chile, Shell says its move into natural resource industries, other than its traditional business of oil, fits the strategic pattern the company has followed internationally in the last 10 years. La Escondida, far and away the country's largest foreign investment project, worth $1.1bn, is led by Broken Hill Properties, Australia's petroleum, minerals and steel company.

La Escondida is the world's largest undeveloped copper ore body, located in Chile's northern Atacama desert. BHP acquired a 60 per cent stake in the deposit when it bought Utah International, a US minerals group. BHP joined with partners Rio Tinto Zinc and Mitsubishi Corporation of Japan to develop the mine.

Among other recent investments, according to Mr Fernando Alvear of the government's committee on foreign investment, are a $300m methanol plant by the US Henley Group, a project with help from the International Finance Corporation, the private arm of the World Bank and in association with Chilean partners, and the New Zealand companies Carter Holt Harvey and Fletcher Challenge were both authorised last year for projects totalling $354.5m. Fletcher Challenge bought a pulp plant using a debt swap for $131.5 million. Carter Holt Harvey acquired a 25 per cent share of Chile's diversified conglomerate Copec. Using a swap of $223m, it has forestry and fishing projects under way with Copec.

Britain's Unilever is investing $30m in salmon farming, one of the country's newest and most promising export industries.

Mr Alvear added that the US company Combustion Engineering was finishing negotiations for a $380m fertiliser plant to produce ammonia and urea.

American companies account for about half of Chile's foreign investment. But Chile's Australasian connection is growing. As the mutual discovery moves along, a Chilean identification is growing with its south Pacific neighbours. Geologically and climatically, Chile is said to like a combination of New Zealand and Australia. Besides BHP, Australia's Bond Group has made a splash in Chile. Mr Alan Bond, who leads the group, acquired through his company Dallhold Resources Chile's 240,000-ounce-per-year gold mine, El Indio.

El Indio was discovered and developed in the late 1970s by the US company St Joe Minerals. Last year, Mr Bond bought St Joe Gold for $500m from Fluor Corporation, which had taken control of the company but was less interested to stay in mining.

Following his introduction to Chile through El Indio, Mr Bond discovered that the Chilean Telephone Company (CTC), virtually a national monopoly with plenty of room for profitable growth, was for sale last year as part of the sell directly to bond for the same price. Unfortunately for Bond, this gave the impression that there was something fishy in the deal. Bond Corporation Chile has now purchased additional shares for about $5m to bring its interest in CTC up to 45 per cent. It is infusing the telephone company with another $30m by the year end.

Its plans for expansion of services are ambitious. According to Mr Babidge, the company intends to double the number of rural phone lines in the next four years, provide new phone services such as special call-in numbers such as the time and temperature services already begun, instal 1,116 new public phones by the end of 1988, establish 1,000 facsimile centres throughout the country by December and provide a portable cellular phone system.

Having accepted a tender from NEC for a cellular system worth $27.1m, Bond expects to have the first commercial handsets in operation by February 1989.

Factors that attract investors other than debt-equity, include equal treatment with Chileans, meaning there are no specific areas or conditions for foreigners, minimum interference by the state, a cheap and well educated labour force, restricted union activity, and modernised economic conditions.

For example, Chile has highest number of personal computers per capita in Latin America. Mining laws are exceedingly favourable granting perpetual leases and mining costs are among the lowest.

For direct investments net profits can be remitted immediately, and capital after three years for all projects except mining, which require capital where a five to eight year limit applies.

For debt-equity swaps under Chapter 19 of the Foreign Investment Code profits can be remitted after four years and capital after then.

Taxation runs about 45 per cent. Those foreign investors who have arrived early have enjoyed the advantage, such as prices, of coming in where others fear to tread. But the transition to democracy could still hold some dangers. Opposition politicians have been careful to say they are in favour of foreign investment. But some restrictions are hinted at, specially on debt-swap and privatisation deals. But for now, investors say they don't believe any radical changes would be made even if a new government came in, replacing President Pinochet.

One diplomat said the local conventional wisdom is that "things are so good in Chile, it would take a long time to mess them up."

Barbara Durr

EXPORTS

Chile's fishing industry has played its part in the country's export drive

Eager for success

ALMOST overnight, Chile has acquired an export mentality. This is exemplified by the story of a young civil engineer who has shown what can be done even in the most esoteric of fields.

In 1982, Carlos del Rio lost his job when the construction company he worked for was badly hit by recession. Being a keen fisherman, he had noticed the effectiveness of a certain type of worm for bait. With no export experience he decided to approach ProChile, the national export advisory organisation set up in 1974 and eventually got a 'bite' from a small company in Hamburg.

Expobait was formed with five employees on the basis of this contract. and the company now employs more than 45 people and this year sales are expected to be $180,000 in five countries.

Such initiative is a microcosm of what has been happening in Chile, especially since the financial collapse of 1981-82. Many companies have sprung up geared exclusively to export, while existing companies have been looking outside Chile to absorb excess domestic production and to earn foreign exchange.

This phenomenon, repeated many times over on both a small and large scale, has had a dramatic impact on the structure of Chilean exports. There are now nearly 3,000 companies involved in exports, compared with a mere 200 at the onset of the 1970s. Also, in the last two decades the number of products exported has risen from 400 to 1,350. In the space of 15 years the share of exports in GDP has risen from 12 per cent to 28 per cent - and is still rising. Export earnings this year could top $6bn, a five-fold increase in 15 years.

In the early 1970s, Chile and Peru, with a broadly similar resource base, were earning about the same from exports. Peru's exports are now one third those of Chile.

The evolution is all the more remarkable not just because of the absence of a mercantilist tradition in Chile but also because of the traditional dominance of copper. Chile has relied traditionally for its export earnings almost exclusively this century on copper (previously it was nitrates). Even in the 1970s, copper was accounting for more than 66 per cent of all foreign exchange earnings. Now copper generates less than 45 per cent of export income.

The principal growth has come from the development of fruit, agro-industries, fishing and forestry. Chileans have realised that in spite of the country's distance from North American and European markets, it has the advantage of climate and summer/winter season that dovetails neatly into the latter's periods of demand. The quantity of table grapes and apples produced for export has more than trebled in the past 12 years. Chile now accounts for 89 per cent of all grapes exported from the southern hemisphere and 30 per cent of apples, also proving more competitive than Argentina. Fruit exports are worth $550m.

Major investments have been made in forestry which are now having a significant impact, especially the radiata pine.

Fisheries meanwhile has seen exports rise from around $20m in the early 1970s to $650m today. One of the fastest expanding growth areas concern salmon.

From a mere $6m in 1984, salmon exports will be be up to $40m by 1990 and earning as much as $400m by the late 1990s.

Also, the government has also encouraged the defence industry. Figures are hard to obtain but it is thought that defence sales are earning $400m annually, mainly to developing countries.

Export activity is co-ordinated both through ProChile and the export association, Asexma. The latter is divided into a series of committees to co-ordinate export promotion by sector. Aszexma's committees cover: domestic appliances, leather goods, decorative goods, sanitary fittings, furniture, apparel, capital goods, toys, ironmongery, agricultural machinery, copper products, electronics.

There is is also a special banking committee (one foreign and five foreign banks) formed in 1986 to co-ordinate financial matters.

Talking to Asexma members, the most striking feature is their determination to explore all opportunities even though the market may be small. Many exporters recognise that for finished goods it is easier to sell outside the major industrialised countries, concentrating first on South America, the Caribbean and Central America. With industrial products, Chile is aiming for small niches in a broad range of markets, while with agricultural products, it is being more openly competitive on a big scale. Indeed, there has been some doubt as to whether the kiwi fruit industry has not been over-invested, in order to provide economies of scale and market penetration.

The recent export performance is in part a case of necessity. Chile has needed to find new sources of foreign exchange to service its huge debt burden. However, the government has been quick to realise this and encourage the business community to react. It has also offered a broad range of incentives for foreign capital to invest in export orientated ventures.

In the case of some agricultural products like grapes and apples, export earnings may be coming close to a ceiling. But overall, the prospects indicate a continued expansion. The cumulative effect of foreign investment has hardly begun to be felt, especially in the mining sector. Prospective income from the $1.2bn investment in the Escondida copper mine will be a major cushion in the future, even on a low copper price.

Robert Graham

International Banks see Chile putting its financial house in order

Solving the debt problem

FROM THE point of view of international banks, Chile provides the perfect example of how a country can manage its way out of a debt problem.

Its $18bn of debt represents about 110 per cent of gross domestic product, compared with about 40 per cent for Brazil. Yet it is reducing its foreign debt burden, is enjoying economic growth and lower inflation.

"Chile is a country that banks point to as having squared all the imperatives for growth-orientated adjustment," says Mr Paul Luke, economist at Libra Bank, the London-based consortium that specialises in lending to Latin America.

The view of Chilean economic success of course depends on where the line is drawn. As critics of the Pinochet regime are quick to point out, if the line is drawn at the start of military rule in 1973, then the record is less than exemplary, although two oil shocks and the onset of the debt crisis should make that hardly surprising. If it is drawn 10 years later, following 1982 when real gross domestic product shrunk by an extraordinary 13.1 per cent, and Chile emerges as one of the countries which has suffered least from the debt crisis.

In fact, economic prospects this year continue to be good, although some modest deterioration is expected next year. According to Libra's forecasts, economic growth may just top last year's 5.5 per cent, while inflation should almost be halved to 11 per cent.

Despite moves to liberalise imports, on items such as video-recorders and cars with capacity of more than two litres – designed no doubt to appeal to the middle classes before the plebiscite – exports are growing strongly. This should help the current account to a $700m surplus this year, compared with a deficit last year of about $700m.

Some of this year's export improvement is down to the improvement in copper prices this year, a phenomenon which the Chileans know to their cost can be transitory and quickly reversed. However, it is also accompanied by improvement in the picture of non-copper exports, putting the country's trade into better balance. In the first half of 1988, for example, non-copper exports grew 36 per cent, and, while imports were up 17 per cent, the rise in imports of capital goods was 22 per cent.

More than any other country, Chile has aggressively pursued debt reduction schemes – through debt to equity swaps and the like – and as a consequence has reduced its medium and long-term debt by more than a quarter. It is not uncommon to hear bankers claim that there are few good equity investment opportunities left for foreigners in the country, though the view is by no means universally held.

In any case, the debt reduction programme continues apace, with the house-owning classes now gaining from a programme which allows them to use converted debt to pay off house mortgages.

Indeed, the debt agreement signed earlier this year, covering about $10.5bn of medium- and long-term bank debt, gave explicit permission for Chile to go into the secondary market for bank loans and buy up its debt directly, the first time this concession had been granted for any country. Up to $500m may be spent in retiring foreign loans in this way.

The package, signed in August, also lowers the interest rate margin over interbank rates paid on the loans to 13/16 percentage point on debt restructured in 1983, 1984 and 1985 and to ⅞ point on the new loans made in those years. The previous margin was 1 percentage point. No new money was raised from banks in the package, a factor which obviously accelerated the signing of the agreement. The accord was from the Chilean government's point of view an important stage in its campaign to start raising money again from voluntary lenders.

Lower interest rates were not the only benefit of the agreement, the interest payments were pegged over 12-month, rather than three-month or six-month interbank rates. This will mean one interest payment a year, rather than two or four, a factor which alone has helped the Chilean current account this year to the tune of $350m.

With the picture appears positive for now, bankers are conscious that the country's debt service payments increase once again in the early 1990s. There are also, as usual, political questions to be answered.

In another age, the prospect of the plebiscite later this year would have worried bankers more than it does. The opposition to Pinochet presents a more unified and cohesive front than it has in the past; a more moderate one too.

The real risk bankers see in the picture would be if Pinochet loses in the plebiscite, and in the interim period before an election, opposition agitation gives him the excuse to clamp down once again on his opponents.

Stephen Fidler

Few limits have been set by the country over privitisation

Moving further and faster

OFFERS for international bids to buy a stake in Lan-Chile, the state airline, were sent out last month.

The offer closes in December and so far British Airways, Iberia and SAS have shown a keen interest in the 32.7 per cent available.

Corfo, the state development corporation in charge of Chile's privatisation programme, plans to sell up to 60 per cent of the airline with at least 12.5 per cent going to the employees.

The Lan-Chile sale, the latest in a major divestiture of state assets, shows that Chile has moved further and faster in privatisation than any other Latin American country.

Privatisation in Chile differs from the rest of the continent not merely because of its scope and scale. The motivation behind the policy is far more broad-based. There are six aims behind privatisation:

- Lessen the role of the state
- Return companies the state was forced to acquire or which were nationalised by previous governments
- Generate domestic and international confidence
- Widen the base of share ownership
- Improve management
- Raise extra revenue

In the case of Mexico, privatisation has been mainly to restore international and domestic business confidence and to a lesser extent reduce the state's role. The same considerations apply in reverse order in Argentina, the other country which has made the most advances down the road of privatisation.

In both cases there are limits as to how far these governments are will to go in reducing the state role, restricting sales for the time being to airlines and telecommunications.

The Pinochet Government, on the other hand, is setting few limits. There is talk of privatising airport services, water supplies, the ports management and the Santiago Metro. The line is only being drawn at the core operations of Codelco, the state copper concern and some power generation. Only one known instance has emerged of opposition within the regime to privatisation on strategic grounds.

This was over proposals to sell part of Empremar, the state shipping company. Admiral Jose Toribio Merino, the naval member of the four-man military junta, objected in May that such a sale might compromise the state's hand in time of war. Significantly, Admiral Merino's air force colleague on the junta, General Fernando Matthei, raised no such objections about the sale of Lan-Chile or the agreement concluded with Ladeco, the other Chilean airline, sold to Australia's Ansett Airlines.

WHO BOUGHT THE SHARES (% 1985-88)

Companies	Pension funds	Bourse sales	Workers	Private treaty	Others
Cap	0	20	34	0	36
Chilgener	14	80	6	0	0
Chilmetro	24	39	31	0	6
Chilquinta	17	72	9	0	2
Ctc	7.5	8.2	12	37	0
Ecom	0	0	100	0	0
Emec	0	0	0	100	0
Emel	0	0	100	0	0
Emelat	0	0	0	100	0
Enaex	0	0	0	67	33
Endesa	14.3	0.7	6	0	22
Entel	18	18	12.5	0	0
Iansa	0	38.5	21.5	0	15
Labchile	4	32.1	12.6	0	0
Pilmaiquen	0	0	0	100	0
Pullinque	0	0	0	100	0
Soquimich	23	59	18	0	0
Schwager	7.2	32.3	3	0	0
Telex	0	0	0	100	0

Source: CORFO

Outside the government, the most organised opposition to privatisation has come from a group of professionals calling themselves the Command to Defend State Companies and Engineers for Democracy.

One of their complaints is that the government's broad embrace of privatisation has created confusion and uncertainty in the management of companies. So far 28 companies have been singled out, the speed of sales being dictated by technical considerations and the ability of a small, but expanding, capital market to handle them.

The pension funds in the past three years have become important players on the scene, being relied upon to absorb chunks of equity.

The initial share of Lan-Chile stock to be offered on the stock exchange is likely to be around 1 per cent with some 2 per cent earmarked for the pension funds. Normally, the government operated on the basis of an initial 30 per cent sale of a company, partly to test pricing and more importantly because of the market itself.

As for share sales to employees, 1985 legislation permits indemnity and advance retirement payments to be made via the purchase of shares in a company. Alternatively, shares can be given in lieu of cash. This system is encouraged by the state gradually pulling out of providing pensions, leaving this task directly to the privately-run pension funds. By mid-year, according to Corfo, about 27,000 employees had taken advantage of such schemes. This is against a total of 114,000 shareholders created by Corfo divestiture since 1985. During this sales of Corfo assets totalled $918m.

The government is sensitive to charges of underpricing the sale of assets in order to attract buyers. Such accusations have been made in the case of the electricity company, Endesa, whose power stations were sold to IM Trust for 50 per cent below their $46m replacement cost. The government view is that even if assets might be sold at bargain prices, the companies are going to have better and more dedicated management, willing also to assume outstanding debt.

On stock market flotations, Col Jose Martinez Martin, in charge of privatisation at Corfo, maintains that care has always been taken to test sentiment, with prices being adjusted for subsequent chunks according to the initial response. As for priming companies with state funds before flotation there seems to be have been little criticism. The government has been quite open that its most expensive restructuring operation prior to privatisation was Endesa.

This is effectively the third phase of privatisation since Gen Pinochet seized power. The first covered 1973-75 and basically dealt with the problems created by the aftermath of the Allende overthrow.

This involved the transfer back to private hands of 350 private sector companies that had been taken over or intervened owing to financial problems prior to 1973. Title was still held by the original owners but the companies were being administered and bankrolled by the state. By the end of 1974, 311 such companies had been returned to their original owners in a move designed to boost private-sector confidence.

Because of the rapid handover, little effort was made to restructure the latter's finances, which had serious consequences when Chile was hit by the financial collapse of 1981/82.

The second phase, from 1975-83, was intended to be more rational with companies. The aim was to slim, pump in fresh capital, rejuvenate the management and then sell. However, these aims were seriously undermined by the financial collapse of 1981/82.

The government was obliged to intervene in both banks and conglomerates which had grown far too rapidly in the Chicago Boys' boom.

Thus until the end of 1983 privatisation had to be improvised with the emphasis on those financial concerns and industrial holdings which had been forced into the state's arms. In total, 86 companies and 11 banks were sold in this way, usually directly to interested parties. Government critics denounced some of these transactions, arguing that quick sales had been conducted to paper over the damage done by the financial collapse.

Although there is some justification in this charge, the opposition now is far less vociferous in attacking the current privatisation phase. Indeed, few dispute that the professionalism with which the process is being conducted. Even former opponents of divestiture are beginning to accept the principle of a slimmed state sector.

Robert Graham

Chilean workers take a break: their low wages could be an issue in the October 5 pleblacite

THE LUKSIC GROUP

Courting foreign partners

THE FINANCIAL collapse of 1981-82 was a watershed in Chilean business: only those with limited borrowings, tight management and export-orientated companies survived.

The Luksic Group has not only survived but was in good enough shape to take advantage of the expanding economy during the past four years. Luksic, with total assets of $1.5bn at the end of 1987,is one of the the three largest family-run groups in the country. Though unobtrusive, its interests range from mining, agribusiness, forestry, and fishing through to banking, telecommunications, drinks and foodstuffs.

The most singular feature of the group is the way its assets are held essentially through majority ownership of publicly-quoted Chilean companies.

The group has tended to expand by moving into existing companies. It also uses Antofagasta Holdings Plc, quoted on the London Stock Exchange, as a major vehicle for its investment portfolio. Antofagasta was first quoted in London 100 years ago to finance the construction and operation of a railway from Bolivia to the Pacific Coast. The Luksic Group now owns approximately 70 per cent of this company, ultimately through the Luksic family's Liechtenstein registered Dolberg Finance Corporation.

Another interesting aspect of the group is its courting of foreign partners. Currently it is partnered with Siemens in telecommunications, Cluff Oil in gold mining, Banesto of Spain in banking,the Beijing Non-Ferrous-Metals Corporation in copper pipe and allied products manufacture (the first such Latin American industrial venture in China). It is about to join with an American Express subsidiary in foodstuffs.

The Group is a monument to the energy of Sr Andronico Luksic, who is still in overall charge. A great anglophile, he spends almost six months a year in London running the international side, while in Chile his sons Andronico, 34, and Guillermo, 32, are cutting their teeth as future heirs to the empire.

Andronico ,62, is the son of a Jugoslav immigrant who came to the north of Chile at the turn of the century to work in the nitrate industry. His mother, of Basque origin, was from a family that had first settled in Bolivia and who traded, especially in cattle with northern Argentina.

It was round the mining activities of the Antofagasta region in the early 1950s that Andronico began his entrepeneurial career. On the back of a Ford dealership he bought into a copper mine which he later sold to Japanese interests. While retaining mining interests,(his passions are still mining and geology), he diversified into fishing and fishmeal.

Within 10 years, the north of Chile was too small to contain his activities and he moved his operations and family to Santiago. The first large venture was to take over Luchetti, one of the best brand names for pasta and soups. This was followed in 1965 by buying into Lota-Schwagge, the principal private coal mine.

The group's expanding activities in virtually every branch of the economy except finance made it vulnerable with the advent of the populist government of Salvador Allende.

"The Allende government either nationalised, expropriated or allowed workers to take over every important part of our business", says Guillermo Luksic. "We had this spare management and we decided to look for opportunities outside Chile, especially in the Salta region of Argentina".

Beginning again with a Ford dealership this time in Argentina, Luksic, moved into cattle farming and a small brewery. In this way a nucleus of staff was maintained and cash flow was generated to take advantage of events immediately after the military coup in 1973. Companies like Lota-Schwager had been nationalised and were not returned but some like Luchetti, taken over by workers in June 1973, were returned in tact - three days after the coup. But basically Andronico had to rebuild, buying back for instance his forestry concern, Colcura.

In spite of the difficulties of the early post-Allende days, the confused legacy of the Popular Unity government offered unparalleled opportunities to buy good assets.

He bought Madeco, which controls 70 per cent of the copper products market in Chile, moved into telecommunications and at the close of the 1970, at the height of the 'Chicago Boys' free market experiment, bought a stake in Banco O'Higgins, whose expertise was trade finance.

The group survived the 1981/82 financial crash and the subsequent recession for two main reasons: it had avoided the temptation to borrow heavily abroad, thus the companies were not highly geared against dollar borrowings and relied more than most Chilean companies on cash flow and secondly, the bulk of business was either in areas of basic consumer demand or had a substantial export component.

Among the group's casualties was its banking arm, Banco O'Higgins, now owned 60:30 with Banesto. Like most of the private banks it was intervened by the Central Bank which assumed its overdue loans with the issue of 10-year notes. More than 60 per cent of these notes have been since repaid and the rest worth about $27m are expected to paid over the next four years. The bank, however, was not core business.

The group has profited from Chile's expansion in telecommunications(it controls two telephone companies with the franchise in the South's Regions X and XI plus the telex and data transmission concern,VTR) and has cashed on export developments in agriculture, notably berries and most recently salmon. It is also flush with $68m from selling its forestry interests (Colcura) to Shell.

Highly liquid, the group is looking for opportunities, perhaps in Europe but preferably in Chile.

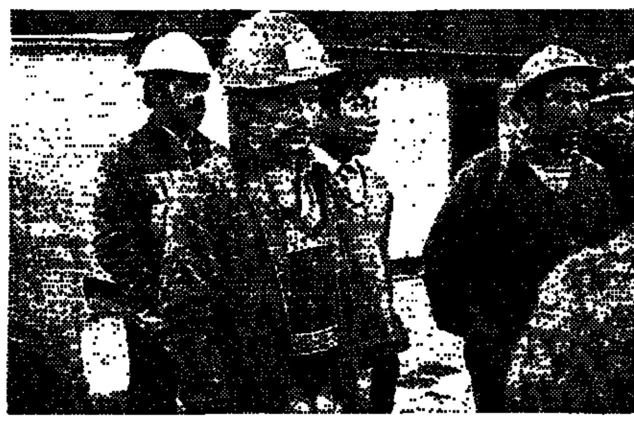
"This is the market we know best", says Guillermo. And what about the political situation?

"We are businessmen not politicians", he replies.

Robert Graham

NON-METALLIC MINERALS

New interest in an old industry



THE GROWING market for non-metallic minerals has focused new attention on Chile, whose nitrate industry at the turn of the century dominated the country's economic and political life.

The nitrate boom lasted until the end of the First World War the development of synthetic substitutes curbed demand. Now the country appears on the verge of overtaking the US as the world's largest producer of lithium.

During the first five months of this year, exports of nitrate and iodine were reported at $60m, a 31.3 per cent increase, while other non-metallic mineral exports grew by 24.8 per cent, to $17.6m.

Although the country's nitrate industry continues to be dominated by the recently-privatised Chilean nitrate company Soquimich, which is Chile's fifth largest exporter, other companies, both Chilean and foreign, have entered the non-metallic minerals sector in recent years.

The US mining company Amax has a majority interest in a $160m investment project to produce potassium sulphate, boric acid, lithium carbonate and potassium chloride in the Atacama desert salt flats in northern Chile. The new company, called Minsal, was formed in 1986 with an 11.25 per cent participation by the Chilean molybdenum company Molyment and a 25 per cent participation by the country's state development corporation Corfo.

Minsal expects to complete feasibility and cost studies by the end of this year, and if production starts as planned in 1992 to extract about 500,000 tons of potassium chloride, 200,000 tons of potassium sulphate, 30,000 tons of boric acid, 33m lbs of lithium carbonates per year, along with 200,000 tons of potassium nitrate to be produced jointly with Soquimich.

The project, if undertaken, would make Chile the biggest lithium producer in the world.

Another project in the area is that of the Sociedad Chilena del Litio, which began in 1980 as a joint venture between Foote Minerals and Corfo. Last year the company produced 6,603 tons of lithium carbonate, with exports worth $16.4m. Corfo, which recently sold 25 per cent of its share in the project to Foote Minerals, has been involved in developing Chile's non- metallic mining projects since 1974, when the country's mixed salts programme was created.

Earlier this year, Chile's Errazuriz Group said it was considering a $420m investment in a project to extract iodine, potassium nitrate and sulphate in abandoned nitrate dumps in northern Chile. The same business group recently lost a court suit over rights to three nitrate sites in the area to Soquimich, which plans to invest $95m in a new nitrate and iodine plant in the region.

Soquimich, which operates two mines north-east of the northern port city of Antofagasta, reported $35m in profits last year and sales of $173m, the company produces sodium nitrate, potassium nitrate, iodine and anhydrous sodium sulphate, but does not release production data. The Chilean central bank's otherwise detailed charts on economic production figures contains no figures on nitrate and iodine output since 1984, with the simple explanation that 'no information is available'

Corfo, which has acted as a holding company for most of Chile's state enterprises, began privatising soquimich in 1986,and by the beginning of this year its shares were completely in private hands.

Soquimich's new president is Mr Julio Ponce, a former director of the State Development Corporation who happens to be General Augusto Pinochet's son-in-law. This situation, along with the fact that Mr Ponce's younger brother Eugenio is the company's sales manager and his father one of the principal shareholders, raised more than a few eyebrows in Chilean business circles, but critics have been unable to prove any wrongdoing.

Soquimich's main markets are the US (37 per cent), Western Europe (28 per cent) and Brazil (17 per cent), with Chile's domestic market taking up most of the remainder. In 1982 the US Department of Commerce filed a dumping claim against Soquimich, charging that the company had exported industrial grade sodium nitrate to the US at less than allocated production costs. Five years later the US International Trade Commission ruled that Chilean shipments of the product entering the US were priced below production costs, and assigned a compensatory duty and Soquimich was fined $7.2m on industrial sodium nitrate exports entering the US between March 1,1984 and February 28,1987. The Chilean nitrate company's US shipments are still subject to a fine, as the US Commerce Department's investigators continue to review the case.

Soquimich executives have expressed surprise that US chemical giants could be affected by a Chilean company's sale, and one official compared the enterprise's position to that of the mouse that roared. But the nitrate company's case has not been helped by the lack of available production statistics, a situation which compares unfavourably with accounting practices in other Chilean mining companies.

Mary Helen Spooner

Mine that will meet international copper demand in the 1990s

Work at the Escondida copper mine in the Atacama desert in northern Chile

Worldwide co-operation unlocks Escondida's riches

CHILE'S COPPER production will be boosted by at least one third when the Escondida mine starts production in 1991.

Escondida holds about 20 per cent of the non-Communist world's copper ore reserves and is widely believed to be essential if world demand for the metal is to be met in the 1990s.

Escondida's owners gave the go-ahead to the $1.1bn project in July after signing loan agreements for $680m of non-recourse financing with Japanese, West German and Finnish organisations and the World Bank's commercial arm, the International Finance Corporation.

The partners in the venture – Broken Hill Proprietary of Australia, with 57.7 per cent; the RTZ Corporation of the UK, 30 per cent; and a Japanese consortium led by Mitsubishi, 10 per cent - already have spent about $100m on the venture.

Escondida is due to become the world's third-largest copper producer with an output of 320,000 tonnes a year. Two other Chilean mines, Chuquicamata (about 520,000 tonnes) and El Teniente (about 370,000 tonnes), both owned by Codelco, the state-controlled group, are in first and second place.

The partners say Escondida will be among the world's lowest-cost copper producers. Analysts suggest it could produce copper for as little as 40 cents a lb.

Escondida was discovered in 1981 and the name, meaning "hidden", stems from the failure of many mining companies to find the exceptionally rich deposit despite extensive prospecting. It is a high-grade porphyry copper deposit 3,000 metres above sea level in the Atacama Desert in northern Chile, about 180kms from Antofagasta.

Reserves, including minor quantities of gold, silver and molybdenum, are estimated at 662m tonnes grading 2.1 per cent copper a tonne, giving a mine life of 52 years at the forecast rate of production.

Current plans call for the Escondida deposit to be mined by the open cast method. It is expected to employ about 3,000 at the peak of construction and 1,100, mainly local, during normal operations from 1991. Unusually, there will be no married miners' camp but each miner will be able to spend time off with his family in Antofagasta. This is likely to have a considerable impact on the town's economy and property prices.

However, the Antofagasta railway does not stand to benefit greatly because the copper concentrate will be sent as slurry through a pipeline snaking 150kms from the mine to the company's own, purpose-built port facility at Coloroso.

The Chilean government has signed a 20-year agreement with the partners which allows cash generated from the operations to be remitted overseas to service the capital. A maximum tax of 49.5 per cent will be paid on profits. Government officials estimate the project will contribute between $420m and $550m to Chile's net annual foreign currency earnings.

The complex debt financing package for the project involved loans repayable over 12½ years. The Export-Import Bank of Japan has provided $350m; Kreditanstalt fur Wiederaufbau (KfW) of West Germany $140m; and a bank syndicate led by Kansallis-Osake-Pankki guaranteed by Vientitakuulaitos of Finland, $47m.

All these are import finance arrangements secured against the copper concentrate smelting contracts with smelters in these countries.

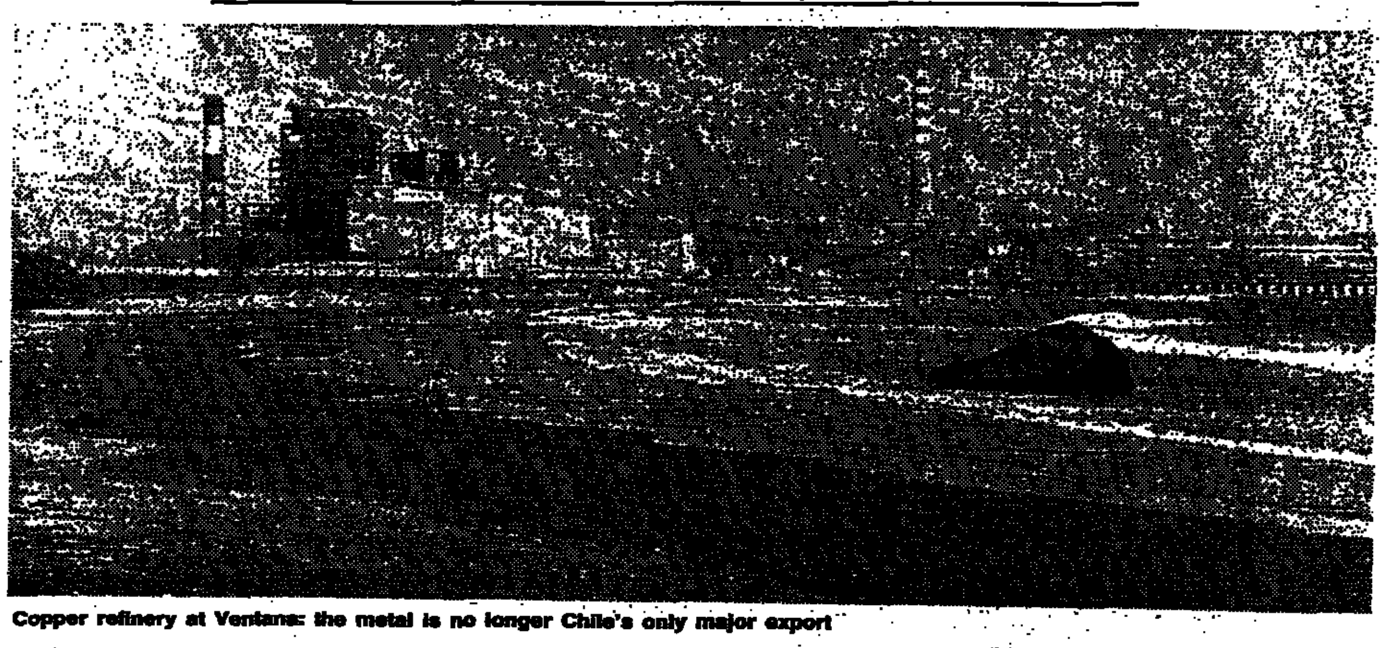
The Japan Exim loan will be co-financed by Japanese banks with the Industrial Bank of Japan acting as agent. The International Finance Corporation will lend $70m and will take a 2.5 per cent shareholding in the project. The rest of the finance will be provided from export and supplier credit facilities, including the Export Development Corporation of Canada, KfW and an affiliate of Mitsubishi.

The mine's potential overcame the reluctance of some companies to deal with General Augusto Pinochet's military dictatorship and the signs are that the Japanese, who will take about 35 per cent of Escondida's annual copper output, and Finland's state-owned Outokumpu, were seriously concerned about losing this golden opportunity to obtain long-term, low-cost supplies.

Finland's militant Transport Workers Union has protested vehemently about Outokumpu's involvement and has said its members will refuse to handle concentrates from Escondida. But neither the Finnish government nor Outokumpu has budged on the issue so far.

Kenneth Gooding

Efficiency increases reduce production costs



Copper refinery at Ventana: the metal is no longer Chile's only major export

Expansion of industry proved entirely justified

BY COMMON consent Chile is the most successful copper producer of recent times. Its output grew in every year between 1978 and 1986 and annual production increased by 35 per cent at a time when metal prices were in deep recession.

The recession played havoc with the rest of the Western world's copper industry, particularly the North American companies which had to cut back savagely. But most observers suggest Chile's expansion was entirely justified.

"The increase was absolutely fair and justifiable", says Mr Michael Cook, a director of the London-based Commodities Research Unit. "Chile is one of the world's lowest-cost copper producers and was right to expand".

Neil Buxton, an analyst with Shearson Lehman Hutton's London Metals Research Unit adds: "The country is blessed with very rich copper deposits and the government's policy of devaluing the peso in order to maintain copper's profitability has worked well. That, together with several techniques to increase mining efficiency, has steadily reduced the average cost of production to well below 50 cents a lb". (The market price of copper fell to just under 60 cents a lb during the recession but has been well over $1 for most of the past year.)

By 1986, Chile's annual copper output reached 1.4m tonnes and accounted for 21.5 per cent of the Western world's production compared with 17 per cent 10 years earlier. Output dropped back slightly, to 1.375m tonnes, last year and was down again in the first half of 1988.

However, much of the decrease can be accounted for by disruptions caused by a huge investment programme being pushed through by Codelco, the state-owned company which dominates Chile's copper industry and accounts for about 80 per cent of the country's production.

Codelco aims to spend about $1bn between 1988 and 1990, mostly on its mining divisions and mainly at Chuquicamata, the biggest of its four divisions and the world's largest copper mine.

The investment will ensure that Codelco's copper output grows quickly again until the early 1990s. By then preparations for another massive project, Escondida, will be will advanced.

It is likely that Codelco's copper output would have fallen if it had not made some investment. The ore contains less copper than the material it processed some years ago – the CRU estimates that in 1982 the average ore milled contained 1.8 per cent copper but last year the average grade was 1.62 per cent and by 1992 the figure is likely to be 1.4 per cent. At the same time the ore is becoming more difficult to process.

To compensate for the drop in grades, Chuquicamata is increasing the amount of ore processed from the current 102,000 tonnes a day to 153,000 tonnes a day by mid-1989.

The affect, according to Codelco's calculations, will be to lift the company's total copper production from 1.302m tonnes next year to 1.365m in 1989 and a peak 1.387m tonnes in 1991.

CRU's Mr Cook says: "These objectives are absolutely attainable but possibly the timing may slip a little".

Codelco can well afford the investment programme. The company's vice-president for finance, Mr Juan Dominguez has said its net profits could reach $1bn this year if the copper price remains above $1 a lb. In 1987 Codelco made net profits of $267.1m with copper prices averaging 78.6 cents a lb. Profits were more than double the $126.5m for 1986.

The company's exports last year reached 1.16m tonnes, and in value were equivalent 36 per cent of Chile's total exports. Codelco contributed more than 5 per cent to the Chilean gross domestic product in the years 1976-87.

Codelco's investment is also helping to change the pattern of copper production in Chile away from concentrates and "blister" to refined copper which has a higher value.

Another state-owned organisation, Enami, is also contributing to this trend. Enami, which does little mining these days but processes most of the ores and concentrates from Chile's thriving private copper companies, recently expanded the capacity of its refinery and further expansion is already being considered.

Kenneth Gooding

PUNTA ARENAS

Isolation does not impede investment

PUNTA ARENAS means 'sandy point', in Spanish, and it is the world's southernmost city.

Overlooking the Straits of Magellan and facing Tierra del Fuego, this regional capital of 80,000 inhabitants has been a stronghold of of anti-government sentiment, a centre of border tensions and intrigue during Chile's former territorial dispute with Argentina, and most recently, the site of much new foreign investment in the country.

About $400m, or nearly two thirds of the foreign investment in Chile last year, went to projects in the region.

A methanol plant which can produce 750,000 metric tonnes a year, built by the US Henley group, with Japanese and Chilean minority participation, recently began operations. The new company, Cape Horn Methanol, negotiated a 20-year supply contract for natural gas with the Chilean state oil company, the Empresa Nacional del Petroleo (ENAP), whose main drilling platforms are located in the area.

Another new project is the planned construction of ammonia-urea fertiliser plant in the same vicinity for next year, with an estimated investment of $360m.

The South African company Sandock Austral has a $13m agreement with the Chilean navy to build a shipyard in the area, and authorities are seeking international bids to build a new port two miles north of the city.

The southern third of Chile's unusual geography mostly consists of hundreds of islands and islets, and Punta Arenas' location on the last bit of mainland South America places it closer to Argentine towns than to Chilean ones.

The only overland transport route to the north cuts through Argentina. All other travel is by ship or plane. Punta Arenas' relative isolation from the rest of the country has given it a pioneer atmosphere. Before oil was found in the Straits of Magellan and on Terra del Fuego, sheep farming - often by descendants of British settlers - was the most important economic activity. The region still accounts for 45 per cent of the sheep raising in Chile, producing about 9m kilos of wool a year.

The strong dry winds which sweep the area make it unsuitable for almost all traditional farming except ranching. This situation, along with Punta Arenas' isolation, makes for high food prices, but the Patagonia Institute and the University of Magellan are experimenting with greenhouse cultivation and hope to harvest about 5,000 kilos of Swiss chard next year.

In the town of Puerto Natales, 160 miles north of Punta Arenas, Chilean agricultural authorities and the Organisation of American

About $400m, of foreign investment in Chile last year, went to the region.

States have sponsored a programme of individual greenhouses for about 200 families.

Punta Arenas has also had at least its share of Chilean political unrest in recent years. Early in 1984 opponents of General Augusto Pinochet's regime staged an anti-government demonstration during the Chilean leader's visit to the city. The protest marked one of the first times General Pinochet was actually confronted by a group of vocal critics. Tensions between the authorities and Chile's Catholic church and opposition groups increased over the next few months, culminating in a bomb explosion which destroyed a parish church and killed a man who was apparently placing the device in the wall.

An identity card found in the rubble showed the victim was in Chilean Army Intelligence. The army issued a statement acknowledging the victim as one of its officers, but suggested that he might have been trying to deactivate the bomb or had been kidnapped by terrorists who knocked him unconscious and placed him by the church prior to the explosion. The incident did not help ease the long-standing tensions between the regime and the local Roman Catholic hierarchy.

This situation changed considerably for the better during the 1985-87 military governorship of General Luis Danus, a former economy minister with a reputation for independent thinking.

The general established a line of communication with Punta Arenas' bishop Tomas Gonzalez, a vociferous critic of the Pinochet regime, made himself accessible to the local press and later even gave opposition political groups the required authorisation to hold rallies in the city. In 1986 a left-wing Chilean journalist was kidnapped and murdered by an armed death squad operating following an assassination attempt against General Pinochet. The murder had the hallmarks of a revenge killing, and General Danus, in what was an unprecedented gesture for a Chilean army officer working under the Pinochet regime, publicly condemned the assassination.

"I hope they find the criminal who killed this journalist right away. These kinds of actions are inconceivable," he said, adding that a quick solution to the case would be in the government's own interest. The Chilean army's Fifth Division, headquartered in Punta Arenas, issued a statement expressing its "most energetic repudiation, rejection and condemnation of the murder."

General Danus did not last much longer as the governor of Punta Arenas, and after declining a government offer to make him Chilean consul in San Francisco, retired from the army.

Punta Arenas residents, however, remember his term there, as a demonstration of how the Chilean military, church and political parties could achieve a working relationship.

The importance of General Danus' stint as governor was not lost on the Chilean directors of the Cape Horn Methanol Company, who last month organised a plant inauguration ceremony to which General Pinochet and other dignitaries were invited. General Danus was among the guests.

Mary Helen Spooner

Timber is playing an increasingly important role in the economy

Value-added exports are the lure

OXEN pulling logs perched on rustic wooden carts are a common sight along the back roads of southern Chile, where most of the country is covered in forests.

The pace of the oxcarts and their peasant drivers, however, belie the extraordinary boom Chile's forestry industry has undergone in recent years. Exports, production, the amount of land under cultivation and the profits reported by forestry companies have all registered increases and suggest that the sector will be one of the most important in the Chilean economy in future.

Last year forestry exports reached $587m, up from $403.1m in 1986 and $334.5m in 1985. Mr Jorge Prado, Chile's Agriculture Minister, predicts that this year's figure should surpass $700m.

The national forestry corporation CONAF reports that production increased by 8.7 per cent during the first six months of this year and that radiata pine blocks for export jumped by 42.7 per cent during this period, with more modest increases by other forestry products such as cellulose (9.2 per cent), newsprint (2.4 per cent) and sawn wood (2.1 per cent).

Only boards and sheet wood registered a decline, of 4.2 per cent.

The Chilean forestry industry has attracted investors from New Zealand, including Fletcher Challenge and Carter Holt Harvey. Both countries account for about 70 per cent of the world's radiata pine plantations and both countries have similar growing conditions for the tree, which matures in 16-20 years in Chile and New Zealand but takes up to 40 years in the United States. Carter Holt has an agreement with Chile's Angelini business group to invest up to $30m in a fibre board export company, and to help the group renegotiate $250m in debts. Tasman Forestry, the subsidiary of Fletcher Challenge, bought half of a $123m paper plant in 1986, and a pine plantation at the end of last year.

Other foreign investors include the Simpson Paper Company of San Francisco, which earlier this year signed an agreement with Chile's largest paper company, the Compania Manufacturera de Papeles y Cartones (CMPC) and another forestry company, Profor, to build a $500m cellulose plant in southern Chile.

Chile's forestry exports are expected to surpass the $700m mark this year

Construction of the plant is scheduled to start next year, finishing in 1992. The plant will produce 315,000 tons of cellulose annually, double the current production figure.

The Shell Corporation, Citicorp and the Scott Paper Company have invested in a forestry company, Forestal Colcurra, to produce wood chips. The consortium partially financed the purchase via the Chilean central bank's debt conversion programme for foreign investors.

CONAF officials say that Chile's forestry industry will need between $3bn and $3.5bn in new investments by the end of the century, just to process the timber expected to be cut by that date. About $1.7bn has already been committed, mostly in cellulose projects.

The country's traditional forestry exports have been wood block and pulp, but the industry is now moving toward more value-added exports, such as furniture, packing cases and mouldings.

According to central bank figures, wooden manufactured goods exports increased by 180 per cent during the first five months of this year. Paper and cellulose increased by 37.9 per cent, and only printed material, out of all Chile's forestry exports, showed a decline - 30 per cent.

In addition to radiata pine, Chile's forestry researchers are experimenting with other species such as eucalyptus. About 62,000 hectares are being reforested annually, and at this rate the country should have about 1.8m hectares planted by the year two thousand.

Chile also has 7.6m hectares in native forest which has been made available for exploitation, according to CONAF, which estimates that as much as 16 per cent of the country's territory could produce timber.

Forestry industry spokesman have talked of the need to diversify the sector, in order to avoid companies becoming too dependent in a single area affected by world price fluctuations. They have also urged that a national forestry research council be established. Chile already has a forestry investment committee comprising representatives from timber and paper companies and five government agencies involved in the sector. The committee was established as part of a $750m world bank structural adjustment programme.

Chilean environmentalists have decried the destruction of the country's beautiful native forests, and charge that CONAF has failed to regulate exploitation adequately in this area. Several varieties of native larch, mesquite and araucaria pine have been targeted for export, including those on the endangered species list.

The country's forestry boom appears to have temporarily outstripped Chilean authorities' regulatory capacities, but at the same time created an awareness of the importance of the sector which should eventually give way to a well-managed forestry industry.

Mary Helen Spooner

Agriculture and wine

Fruit sector is blossoming

CHILEAN agriculture has a painful past, with bitter memories of agrarian reform and counter-reform during the country's last three governments.

Over the past three years, however, Chile's agricultural output has shown an average annual growth rate of 5.4 per cent, according to central bank figures. And in one area, that of fruit cultivation, growth has been so rapid as to surprise even the most optimistic producers.

The country exported 90.5m cases of fresh fruit during the last harvest, and next year should export at least 100m cases, according to the Chilean Federation of Fruit Producers, FEDEFRUTA.

New markets for Chilean fruit included Libya, which recently imported 155,000 cases of apples, and Japan, which earlier this year took its first Chilean grapes.

FEDEFRUTA reports double digit increases in the export volume of cherries, peaches, raspberries, apricots, pears, grapes and nectarines, triple digit increases in strawberry, kiwi fruit and fig exports and a nearly 2,000 per cent increase in the quantity of blackberries exported.

Chilean farmers hope to export at least 100m cases of fresh fruit next year

The jump in fruit exports has been accompanied by a drop in prices for several products, principally in the US, and stirrings of protectionist sentiment, such as the recent restrictive duty levied on Chilean applies in the European Community.

At a conference of fruit producers held in Santiago last month, delegates from the EC and California stressed the need for Chilean growers to co-ordinate exports and production with their northern hemisphere counterparts. EC representative Mr Bernard Vanderburger warned that only by establishing such a dialogue would it be possible for Chilean fruit exporters to avoid additional restrictions in the European market.

The rapid growth of Chile's fruit production contrasts with the mixed fortunes of the country's wine industry, although during the last harvest period wine production showed a modest comeback.

Chilean wine markets abroad have not been helped over the past 15 years by the negative associations with General Augusto Pinochet's military regime, although it is worth pointing out that no Chilean exile or human rights group ever encouraged such a boycott.

Marketing Chilean wine abroad is more problematic than marketing its fruit, for the obvious reason that apples and grapes do not carry labels, according to Rodrigo Alvarado an author of a book on the country's wine industry.

Mr Alvarado said: "Wine has a face, and the label is a crucial part of the product. You can sell Chilean fruit in a box marked produce of Australia, for instance, but that wouldn't exactly work with wine."

However, Chilean wine exports have been increasing steadily in recent years, from a low of about $9m in 1983 to $17.5m last year, according to the government agricultural planning office. The US is the industry's biggest export market, followed by Latin America, and Chilean wine makers hope to expand their sales in Europe, the most demanding market.

Chile's wine industry began in the 16th century as a secondary activity by aristocratic families, who financed the sector with profits from the mining industry. The Spanish colonists found the country to have an exceptional climate for grape cultivation, with a 1,400km stretch of Chilean territory suitable for vineyards. The farm expropriations during the Socialist government of Salvador Allende had reached very few of the country's vineyards by the time the new military regime took over, so the industry survived relatively intact.

Chilean wine making has suffered from a lack of regulations regarding quality and a decline in internal consumption, as beer and soft drinks become increasingly popular.

In 1982, wine production reached 600m litres; four years later the production level fell by half. But during the 1987-88 season wine production rose slightly to 350m litres.

Chilean wine makers point to a diminishing grape harvest, as producers turn vineyards over to the more profitable harvest of table grapes and other fruit. Wine is also subject to a 16 per cent value added tax, along with another 15 per cent tax applied to alcoholic beverages. This high tax rate, according to many producers, has encouraged the sale of bootleg wine, with as much as 75 per cent of some wineries' production sold in this manner.

The Chilean Agricultural Society has called for an end to the double tax on wine, arguing that it encourages the distribution of cheap bootleg wine and a corresponding increase in alcoholism, especially among low income groups. The agricultural society also urged more stringent quality controls.

Mr Jorge Prado, Chile's Agriculture Minister, recently announced that authorities would extend new lines of credit to wine makers, and a campaign to promote wine consumption both within Chile and abroad, and to step up controls on bootleg wine, but stopped short of reducing taxes on wine.

Mary Helen Spooner

Farming: a bitter past but a bright future

Country poised to become world's fourth largest producer

Salmon production leaps

CHILEAN SALMON farming is a wonder industry. From a few experimental farms in 1982, Chile is poised to become the world's fourth largest producer of captive salmon by the year 2000.

Chilean salmon raising has multiplied as fast as any entrepreneur could have dreamed. Production of salmon in captivity nearly tripled from 1,200 tons in 1985, to 3,500 tons in 1988.

The catch reeled in more than $18m last year, and this year's harvest, between December 1988 and April 1989, is expected to reach 6,000 to 7,500 tons with exports worth $35m to$40m. By the mid 1990s salmon exports are to run to $500m. Three types are or will be produced in Chile, coho (silver), Atlantic and Chinook.

The future projections sometimes seem to border on the fantastic, but the industry so far is fulfilling its promise. By 2000, Chile is expected to produce 23,100 tons of salmon, representing 6.5 per cent of world production and making it the fourth place producer, according to international experts.

The largest producers are, and will continue to be, Norway, Scotland, and Canada. Japan is also a sizeable producer, but most of its production goes to the domestic market. Much of the Chilean harvest is exported. Between 80 per cent and 90 per cent is sold fresh or frozen, the remainder goes to smoking and prepared foods such as pate.

Currently, Chile's markets for salmon exports are concentrated in the US, mostly for fresh fish, and Japan, for frozen. Brazil, Argentina, Italy, the Netherlands and France are also significant buyers.

Especially good prospects for the future lie with the US, where Chilean producers can bring salmon to the market faster than even Alaska.

From harvest to arrival in the US, Chilean salmon needs only one day. In 15 hours more, it can been found at the fish markets from New York to Los Angeles, according to Mr Carlos Wirman, manager of marine resources at Chile Foundation, a non-profit technology transfer organisation that has promoted salmon farming.

The foundation was started in 1976 by ITT and the Chilean government. The comparative costs of the industry in Chile are extremely competitive. While the out-of-farm costs per kg of salmon were $5.05 for Norway, $5.46 for Scotland, $5.67 in Japan and $3.32 in Canada's British Columbia, Chilean costs were just $3.20. Mr Wirman, a fisheries economist, contends that Chile's is the most efficient salmon farming industry in the world. It enjoys the advantages of cheap labour, is largely labour intensive, production areas require simple engineering because they are relatively protected from waves and wind, the cost of feed is low and materials for construction of pens are cheap.

A drawback is that transportation costs are higher given Chile's distance from any of its main markets. Research is being conducted, however, to reduce these by using better containers or perhaps just sending the edible portion, rather than the whole fish.

The industry has attracted several foreign investors from Britain, Japan, the US, Norway and Finland. At the end of 1987, more than 30 companies, foreign and domestic and in partnerships, were salmon farming.

Britain's Unilever inaugurated its salmon farm in January this year. In association with its subsidiary, Marine Harvest of Scotland, Unilever Chile expects to invest $30m by 1994 in three farms that will produce as much as 10,000 tons, worth $100m per year at current prices.

While most of the current salmon boom is in farming, a bet for the future is ranching. The difference is that farming is a controlled fertilisation of eggs and growth of smolts (juvenile salmon) in fresh water, with a later transfer to saltwater pens. There they are artificially fed until they reach adult stage, usually 2.5 to three kg. Ranching, a technique used in the US, Scotland and elsewhere, differs inasmuch as the salmon raised under controlled conditions in fresh water to the smolt stage are then released freely to the ocean, where they feed naturally. The powerful homing instinct of the salmon makes maturing adults return later to the point of release, where on route they can be captured.

A Japanese experiment in ranching in Chile did not have positive results. But the Chile Foundation is convinced that using the right the technology and species, ranching can be successful. Its company Salmones Antarctica is busy proving that ranching has commercial applications. If so, Chile's salmon industry may get a further boost.

Barbara Durr